IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF DELAWARE

TECHNOLOGY LICENSING CORPORATION, a Florida corporation,	)	
Plaintiff,	)	
v.	)	C.A. No. 06-515-JJF
RATIONAL COOKING SYSTEMS, INC., a Delaware corporation,	)	
Defendant.	)	

PLAINTIFF TECHNOLOGY LICENSING CORPORATION'S
MOTION FOR AN EXPEDITED SCHEDULE

Plaintiff Technology Licensing Corporation ("TLC") hereby moves for the entry of an expedited schedule in the above-captioned case. TLC filed its complaint on August 18, 2006[1]. Defendant Rational Cooking Systems, Inc.'s ("Rational") Answer is currently due on September 29, 2006[2]. No scheduling conference pursuant to FED. R. CIV. P. 16(b) has been scheduled.

I. INTRODUCTION

This is a patent infringement lawsuit involving only one product and only one patent. The patent-in-suit, TLC's U.S. Patent No. 4,920,948, entitled "Parameter Control System for an Oven" ("the '948 Patent") is of a pioneering nature in the field of computer controls for ovens. To get a head start and avoid waiting until the '948 Patent expires in October 2007, Rational

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1 TLC filed an amended complaint, as of right, on August 31, 2006. The only substantive change in the amended complaint was to drop Food Automation Service Techniques, Inc. ("FAST") as a co-plaintiff.

2 TLC agreed with Rational to stipulate to an extension of the due date of the Answer on the condition that Rational not use the fact of the extension as a basis to oppose this motion. Rational agreed to this condition.

"jumped the gun", and introduced its infringing SelfCooking Center ("SCC") to the United States' market.

The discovery, motion, and trial schedule in this action should be expedited for the following reasons:

- The patent-in-suit is of a pioneering nature in the field of oven controls, has an early filing date of October 29, 1987, and it and its counterpart patents have been the subject of prior validity challenges (one by Rational's parent company). Thus, there will be little, if any, prior art that is relevant to the case — the likelihood that the patent will be held valid is high.

- Absent an expedited schedule, TLC will be prejudiced because it and its licensees will lose market share and there will be no possibility of an injunction before the expiry of the '948 Patent in October 2007 to halt Rational's irreparable penetration into the market — Rational will be rewarded for its decision to "jump the gun" by introducing its product to the United States' market early.

- Rational will not be prejudiced especially since it and/or its parent company, Rational AG, have known about the '948 Patent or its European counterparts for almost 15 years, having previously challenged the validity of the European counterpart.

- This action is not complex but will require straightforward discovery because there is only one patent-in-suit and one accused product, the SCC, or SelfCooking Center, which was only recently introduced in the United States.

In sum, there is abundant good cause, and it is in the interests of justice, to expedite the schedule in this action. To that end, Plaintiff proposes a schedule (attached hereto as Exhibit A) that would culminate with a trial date in May 2007.

II. AN EXPEDITED SCHEDULING ORDER IS APPROPRIATE IN THIS CASE

In order to determine whether expedited relief is appropriate for a plaintiff, while still protecting defendants from potential damage from an expedited schedule, a Court "weighs [the] benefit to the administration of justice against the possible prejudice placed or hardship placed on Defendants." *Semitool, Inc.* v. *Tokyo Electron Am., Inc. et al.*, 208 F.R.D. 273, 275-76 (N.D. Cal. 2002). In the Third Circuit, there are two prevalent standards used to determine whether a motion to expedite discovery should be granted. *BAE Sys. Aircraft Controls, Inc. v. Eclipse Aviation Corp.*, 224 F.R.D. 581, 587 (D.Del. 2004).

The more stringent standard is modeled on the considerations for granting preliminary relief, and was formulated in *Notaro v. Koch*, 95 F.R.D. 403 (S.D.N.Y. 1982). The Court in *Notaro* considered a situation where the Plaintiffs contended that "without expedited discovery and the resulting trial they [would] suffer irreparable damage, which they assert[ed] establish[ed] compelling need for expedited discovery." *Id.* at 405. The Court held that expedited discovery was justified if a plaintiff could demonstrate:

> (1) irreparable injury; (2) some probability of success on the merits; (3) some connection between expedited discovery and the avoidance of the irreparable injury; and (4) some evidence that the injury will result without expedited discovery looms greater than the injury that the defendant will suffer if the expedited relief is granted.

Id.

The second, more lenient, standard "requires that the moving party show that the expedited request is reasonable in light of all of the circumstances." *BAE Sys. Aircraft Controls, Inc.* at 587. *See also Semitool* at 275-76.

Under either standard, the Court should grant TLC's motion for an expedited schedule. As shown below, first, applying the stringent standard, all four factors are satisfied.

Additionally, applying the lenient standard, this case is simpler than most patent cases and the administration of justice would benefit by the entry of an expedited schedule.

A. TLC will be Irreparably Harmed without an Expedited Schedule

The factual situation here is unique. Several years ago FAST assigned its patents and patent applications to a sister company, TLC. TLC does not practice the invention of any of the assigned patents, including the '948 Patent. Among other patents, TLC licenses the '948 Patent to FAST, which manufactures, *inter alia*, oven controllers for Combi-ovens that embody the invention claimed in the '948 Patent. FAST has sold its controllers to several of Rational's Combi-oven competitors. The relationship between TLC and FAST today is more than as just a mere licensor/licensee. TLC and FAST are small family-owned companies that work together on various research, development, manufacturing, licensing, and marketing fronts. By choosing to use infringing controllers, instead of purchasing licensed controllers from TLC's licensees, such as FAST, Rational has taken an unfair advantage in the marketplace, and is quickly increasing its market share, avoiding either purchasing controllers from FAST or paying licensing fees directly to TLC. Moreover, under these circumstances, Rational's competitors would be reluctant to obtain licenses from TLC where the market leader, Rational, appears successful in ignoring the '948 patent and "jumping the gun."

Rational's parent company, Rational AG, already controls 52% of the world market share in the commercial Combi-oven market, and is focusing its resources on increasing its penetration in the United States market. *See Rational Annual Report for 2005* at 44 (attached as Exhibit C). Indeed, in its Annual Report, Rational AG emphasized the importance it places on market penetration of the SCC in the United States:

> North America represents the most important and highest potential market for RATIONAL technology: it is where the SelfCooking

> Center®, with its simple controls, expanded functionality, low space requirement and optimal combination options, meets every customer requirement in it's [*sic*] best way.
>
> In North America, where the market is still relatively immature, the company is concentrating on the markets of the highest potential of the American states. This will assure more efficient market penetration and with it, our chances of success in the short and medium term.
>
> In the year under review, sales revenue of our sales subsidiaries in North America rose by 29 percent. The high market potential here, coupled with the extent of our investment in the strategic expansion of our sales capacity, mean that even higher growth rates can be expected in the future.

Id. at 49.

Rational's premature exploitation of the technology claimed in the '948 Patent enables Rational to increase its market share in the United States and seriously threatens TLC's licensing business and the business of its licensees. If Rational is successful with its plans for "efficient market penetration" of the United States, it is possible that Rational may put some of TLC's licensees and prospective licensees out of business, thus greatly diminishing, if not destroying, TLC's business. Without an expedited schedule, TLC will be powerless to stop Rational's accelerated market penetration. Therefore, it is crucial to TLC that this case proceed in an expedited fashion to avoid irreparable injury to TLC and its licensees.

B. There is a High Probability of Success on the Merits

The '948 Patent has been the subject of two prior litigations.[3] Although both litigations settled before there was a full adjudication on the merits, the first of the prior litigations resulted in a Consent Judgment of validity with the defendant going out of the Combi-oven controller

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3 *Food Automation—Service Techniques, Inc. v. United Electric Controls Co.*, No. 95-12663 (D.Mass. filed Dec. 8, 1995); *Technology Licensing Corp., et al. v. Turbochef Tech. Inc.*, No. 05-01245 (D.Conn. filed Aug. 8, 2005).

business. The second case was amicably resolved. One of the factors that has contributed to the success of the '948 Patent, in these prior litigations, is that the invention of the '948 Patent is of a seminal nature in the field of oven controls, with few, if any, relevant prior art references in its field. This factor serves to decrease the amount of time necessary for prior art discovery, and supports TLC's contention that an expedited schedule is warranted.

C. Defendant Will Not Be Prejudiced Nor Injured By An Expedited Schedule

Defendant, by and through its parent, has been aware of the '948 Patent at least since Rational AG brought an opposition proceeding challenging the validity of the European counterpart of the '948 Patent in 1993. Thus, Rational will not be prejudiced by expediting this case. Furthermore, TLC's licensee, FAST, has consistently marked its products with the number of the '948 Patent since 1988. In addition, at times over the past decade, Rational AG was repeatedly approached to establish a business relationship with FAST. These offers were rejected or ignored. Instead of dealing with TLC and FAST, Rational chose to ignore them and gradually enter the United States market with the SCC when the term of the '948 Patent had only three years remaining. Since that time, and as the expiration of the '948 Patent drew closer, Rational accelerated its efforts to obtain greater market penetration. The only reasonable inference is that Rational tried to "game" the system by timing its introduction of the SCC device into the United States market in such a way so as to minimize the risk that it would be subjected to an injunction. Rational knew of the '948 Patent for years and it should have recognized the risks it ran in the premature introduction of the SCC. Rational should not be rewarded for its calculated risk to introduce an infringing product before the expiration of the '948 Patent.

TLC only learned of the existence of the SCC in November of 2005, and was diligent in its investigation but did not learn about the infringing features of the SCC until late spring/early

summer of 2006. Once TLC learned that the SCC infringed the '948 Patent, it moved quickly to ensure it had sufficient basis to file a lawsuit, and filed its complaint on August 18, 2006. Injury to TLC's business far outweighs what little, if any, injury Rational may suffer with an expedited schedule. Moreover, an expedited schedule benefits the administration of justice.

D. The Case Is Simple and Concerns Only One Patent and One Accused Product

In addition to satisfying the four factors of the *Notaro* standard, the facts here further support an expedited schedule pursuant to FED. R. CIV. P. 26(d), which permits the Court, upon motion, to fashion discovery as it sees fit to promote the "interests of justice." In this case, because of the relatively limited subject matter, justice would be served by a shortened schedule.

At issue in this action is one patent: the '948 Patent. The '948 Patent has only 3 independent claims and 10 dependent claims. The sole accused product in the present action is the SCC, Rational's Self Cooking Center. The present case is not one of the monster patent cases that have become popular, of late, with dozens of asserted patents, hundreds of asserted claims, and several lines of accused products.

Additionally the SCC is relatively new to the United States, thus it is believed that damages discovery may be limited to the period from 2003 to present. Although there may be need to obtain some narrow discovery related to activities by Rational AG, it is believed that it can be taken expeditiously and in a limited fashion, especially if Rational is cooperative. Although there may be some logistical inconvenience, given current communication technology, Rational AG should be able to quickly respond to narrow requests. Moreover, in view of the prior challenges to the '948 Patent and its counterpart, discovery related to validity should be minimal. It is contemplated that because of this relatively simple case, there should be a small

number of documents produced as well as a limited number of depositions needed to be taken and a concomitant decrease in the time necessary for discovery.

In view of the foregoing, an expedited schedule is reasonable in light of all the circumstances.

III. PROPOSED SCHEDULING ORDER

TLC is confident that discovery, including a Markman hearing and expert discovery, can be completed and the case can be ready for trial in May 2007. Thus, attached hereto as Exhibit A is the proposed scheduling order that TLC respectfully requests the Court enter. Subject to the Court's schedule with respect to the hearing dates, TLC requests the following schedule:

PHASE	DATE
26(a)(1) disclosures	October 16, 2006
End of Initial Discovery	November 3, 2006
Amendment of the Pleadings	November 13, 2006
Joinder of other Parties	November 13, 2006
Markman hearing	February 12, 2007
Expert Reports	March 19, 2007
Rebuttal Expert Reports	April 2, 2007
Case Dispositive Motions	April 9, 2007
Pretrial Conference	Week of May 7, 2007
Trial	May 21, 2007

Moreover, TLC respectfully requests, pursuant to Rule 26(d), that the Court permit TLC to serve its initial discovery requests which are attached hereto as Exhibit B, despite the fact that Rational has not yet answered the complaint, and there has not yet been a Rule 26(f) conference.

IV. CONCLUSION

Rational should not be rewarded for its premature entry into the market and attempt to avoid an injunction, while accelerating its efforts to continue to gain market share and stifle TLC's licensing efforts and the efforts of its licensees. Based on the circumstances as outlined above, TLC respectfully requests that the Court set an expedited schedule as outlined above, enter the Proposed Scheduling Order, attached hereto as Exhibit A, and permit service of the initial discovery requests, attached hereto as Exhibit B.

MORRIS, NICHOLS, ARSHT & TUNNELL LLP

/s/ Jack B. Blumenfeld (#1014)

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September 8, 2006

RULE 7.1.1 CERTIFICATE

I hereby certify that the subject of the foregoing motion has been discussed with counsel for the defendant, but no agreement has been reached.

/s/ Jack B. Blumenfeld (#1014)

Jack B. Blumenfeld

CERTIFICATE OF SERVICE

I, Jack B. Blumenfeld, hereby certify that on September 8, 2006, I electronically filed the foregoing with the Clerk of the Court using CM/ECF, which will send notification of such filing(s) to the following:

Frederick L. Cottrell, III
Richards, Layton & Finger

I also certify that copies were caused to be served on September 8, 2006 upon the following in the manner indicated:

BY HAND

Frederick L. Cottrell, III
Richards, Layton & Finger
One Rodney Square
P.O. Box 551
Wilmington, DE 19899

/s/ *Jack B. Blumenfeld (#1014)*
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EXHIBIT A

IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF DELAWARE

TECHNOLOGY LICENSING CORPORATION, a Florida corporation, Plaintiff,	)	
v.	)	C.A. No. 06-515-JJF
RATIONAL COOKING SYSTEMS, INC., a Delaware corporation, Defendant.	)	

PLAINTIFFS' PROPOSED RULE 16 SCHEDULING ORDER FOR EXPEDITED TRIAL

The parties having satisfied their obligations under Fed. R. Civ. P. 26(f),

IT IS ORDERED that:

1. **Pre-Discovery Disclosures**. The parties will exchange by October 16, 2006 the information required by Fed. R. Civ. P. 26(a)(1) and D. Del. LR 16.2.

2. **Joinder of other Parties and Amendment of Pleadings**. All motions to join other parties and to amend the pleadings shall be filed on or before November 13, 2006.

3. **Discovery**.

(a) Exchange and completion of initial contention interrogatories, identification of fact witnesses and document production in response to initial document requests shall be commenced so as to be completed by November 3, 2006.

(b) Maximum of 50 interrogatories, including contention interrogatories, for each party.

(c) Maximum of 50 requests for admission by each party except for establishing authenticity of evidence.

(d) Maximum of 12 depositions by plaintiff(s) and 12 by defendant(s), excluding expert depositions. Depositions shall not commence until the discovery required by Paragraph 3(a) is completed.

(e) Reports from retained experts required by Fed. R. Civ. P. 26(a)(2) are due from the party bearing the burden of proof on an issue by March 19, 2007, with rebuttal reports due by April 2, 2007.

(f) Any party desiring to depose an expert witness shall notice and complete said deposition no later than ten (10) days from receipt of said expert's report, unless otherwise agreed in writing by the parties or ordered by the Court.

4. **Discovery Disputes.**

(a) A party seeking discovery which the opposing party refuses to provide shall file a motion (no brief) pursuant to Rule 37 of the Federal Rules of Civil Procedure and Local Rule 37.1. Said motion shall not exceed a total of four (4) pages and must specify that the filing is pursuant to the Discovery Dispute procedures provided in this paragraph. An Answer to the Rule 37 motion, not to exceed four (4) pages, shall be filed within five (5) days of service of the motion. No reply is permitted.

(b) All papers shall set forth in a plain and concise manner the issue(s) in dispute, the party's position on the issue(s), and the reasons for the party's position.

(c) Upon receipt of the Answer, the movant shall notify Chambers by e-mail at jjf_civil@ded.uscourts.gov that the dispute is ready for decision.

(d) Upon receipt of the movant's e-mail, the Court will determine whether a conference is necessary and advise the parties accordingly.

(e) There is no limit on the number of Rule 37 motions a party may file, unless otherwise ordered by the Court.

5. **Case Dispositive Motions**. Any case dispositive motions, pursuant to the Federal Rules of Civil Procedure, shall be served and filed with an opening brief on or before April 9, 2007. Briefing shall be pursuant to D. Del. LR 7.1.2. No case dispositive motion may be filed more than ten (10) days from the above date without leave of the Court. The Court will issue a separate Order regarding procedures for filing summary judgment motions.

6. **Markman**. A Markman Hearing will be held on February 12, 2007. Briefing on the claim construction issues shall be completed at least ten (10) business days prior to the hearing. The Court, after reviewing the briefing, will allocate time to the parties for the hearing.

7. **Applications by Motion.**

(a) Any applications to the Court shall be by written motion filed with the Clerk of the Court in compliance with the Federal Rules of Civil Procedure and the Local Rules of Civil Practice for the United States District Court for the District of Delaware (Amended Effective January 1, 1995). Any non-dispositive motion shall contain the statement required by D. Del. LR 7.1.1. Parties may file stipulated and unopposed Orders with the Clerk of the Court for the Court's review and signing. The Court will not consider applications and requests submitted by letter or in a form other than a motion.

(b) No facsimile transmissions will be accepted.

(c) No telephone calls shall be made to Chambers.

(d) Any party with a true emergency matter requiring the assistance of the Court shall e-mail Chambers at: jjf_civil@ded.uscourts.gov. The e-mail shall provide a short statement describing the emergency.

Pretrial Conference and Trial. The Court will schedule a Pretrial Conference for the week of May 7, 2007. Trial shall commence May 21, 2007.

____________________	____________________
DATE	UNITED STATES DISTRICT JUDGE

EXHIBIT B

EXHIBIT 1

IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF DELAWARE

TECHNOLOGY LICENSING CORPORATION, a Florida corporation, Plaintiff,	)	
v.	)	C.A. No. 06-515-JJF
RATIONAL COOKING SYSTEMS, INC., a Delaware corporation, Defendant.	)	

TECHNOLOGY LICENSING CORPORATION'S FIRST SET OF INTERROGATORIES TO RATIONAL COOKING SYSTEMS, INC.

Pursuant to Rule 33 of the Federal Rules of Civil Procedure, and other applicable Federal Rules of Civil Procedure, Plaintiff Technology Licensing Corporation ("TLC") requests that Defendant Rational Cooking Systems, Inc., ("Rational") respond under oath to the following First Set of Interrogatories within Thirty (30) days after the date of service hereof.

DEFINITIONS AND INSTRUCTIONS

1. "You" and "Your" shall mean Rational.

2. "FAST" shall mean Food Automation Service Techniques, Inc.

3. "'948 Patent" shall mean United States Patent No. 4,920,948, entitled "Parameter control system for an oven."

4. "SCC" shall mean the products marketed by Rational under the name "SelfCooking Center®", including but not limited to the SelfCooking Center® model lines 61, 62, 101, 102, 201, 202, and any products or accessories designed or marketed to function with any SelfCooking Center®.

5. "Third Party" shall mean natural persons, corporations or any other form of business entity including, but not limited to, partnerships, firms, ventures and associations, and shall further include, without limitation, divisions, branches, departments, subsidiaries, directors, officers, owners, members, employees, agents, representatives, attorneys or anyone else purporting to act on behalf of the person or entity.

6. "Document" or "Documents" are used herein in their customary broad sense, and mean any form of recording a form of communication or representation upon any tangible thing, including letters, words, pictures, sounds or symbols, or combinations thereof, including without limitation any kind of printed, produced, reproduced, coded or stored, of any kind or description, whether sent or received or not, including originals, copies, drafts and both sides thereof, and including electronic mail, papers, books, charts, graphs, photographs, drawings, correspondence, telegrams, cables, telex messages, memoranda, notes, notations, work papers, books, charts, graphs, photographs, drawings, correspondence, telegrams, cables, telex messages, memoranda, notes, notations, work papers, routing slips, intra- and inter-office communications, affidavits, statements, opinions, court pleadings, reports, indices, studies, analyses, forecasts, evaluations, contracts, computer printouts, data processing input and output, computer programs, data compilations, stored data, microfilms, microfiche, all other records kept by electronic, magnetic, photographic or mechanical means, and things similar to any of the foregoing, regardless of their author or origin, or any kind, and all other tangible things that come within the meaning of writing contained in Rule 1001 of the Federal Rules of evidence, or within the meaning of "document: or "tangible thing" contained in Rule 34 of the Federal Rules of Civil Procedure. Every draft or non-identical copy of a "document" is a separate "document" as that term is used herein.

7. "Communication" shall mean any transmission or exchange of information between two or more persons, whether orally or in writing including without limitation any telephone telegraph, telex, telecopies, cable communicating data processors, e-mail, or some other electronic or other medium.

8. "Prior Art" shall be construed in accordance with the meaning given that term in Title 35 of the United States Code, and interpretations thereof provided by federal judiciary.

9. Whenever appropriate, the singular form of a word shall be interpreted in the plural or vice versa; verb tenses shall be interpreted to include past, present, and future tenses; and terms "and" as well as "or" shall be construed either conjunctively or disjunctively, as necessary to bring within the scope of these interrogatories any information that might otherwise be considered outside their purview; and words imparting the masculine include the feminine and vice versa.

10. In answering these interrogatories, furnish all information, however obtained, including hearsay which is available to you, and information known by or in the possession of you, your agents, your attorneys, or appearing in your records.

11. Where knowledge or information in your possession is requested, the request extends to knowledge or information in the possession of your predecessors and/or successor, as well as to information in the possession of your officers, directors, agents, employees, servants, representatives and attorneys.

12. If you contend that the answer to any interrogatories is privileged or otherwise immune from discovery in whole or in part, state all facts supporting such privilege or immunity, and describe each person having knowledge of the factual basis upon which the privilege or immunity is asserted.

13. If in answering any interrogatory, you seek to invoke the procedures of Rule 33(d) of the Federal Rules of Civil Procedure, state fully all facts which support your contention that the burden of ascertaining the answer to the interrogatory is substantially the same for TLC as it is for Rational, and describe specifically those business records from which you contend TLC may ascertain or derive the answer.

14. These interrogatories shall be considered continuing, and you are to supplement your answers in a timely manner in accordance with the requirements of Rule 26 of the Federal Rules of Civil Procedure.

15. The term "identify" shall mean:

(a) When used in connection with an individual: state the individual's full name; his or her home and business address; his or her present employer; his or her position, title, or job description; and, if employed by you, the individual's dates and regular places of employment, and general duties.

(b) When used in connection with the company, corporation, association, partnership, joint venture, or any legal entity other than a natural person: state its full name and type of organization or entity; the address of its principal place of business; its date and place of incorporation; and identify its officers, directors, and managing agents.

(c) When used in connection with an oral statement: state the name of the speaker; the date of the statement; the place at which the statement was made; the person or persons to whom the statement was addressed, if practicable, and otherwise a general description of the persons to whom

the statement was addressed; the subject matter of the statement; and if the statement was memorialized in writing or mechanical or other recording.

(d) When used in connection with a written statement or document: state the name of the author; the type of document or writing; the date; the addressee, or recipient, if practicable, and otherwise a general description of the persons to whom the writing was distributed; the subject matter; and the present location. In lieu of such identification, you may attach a copy of the writing contained and statement and refer thereto in your answer.

INTERROGATORIES

INTERROGATORY NO. 1.

State whether Rational or Rational AG has conducted or caused to be conducted any search or investigation to locate Prior Art pertinent or relevant to the '948 Patent and, if so, identify all documents relating to such search, including any Prior Art located.

INTERROGATORY NO. 2.

State when Rational first became aware of the '948 Patent, the circumstances of such first awareness, and identify the persons involved in such first awareness.

INTERROGATORY NO. 3.

If you contend that You do not infringe any claim of the '948 Patent, either literally or under the doctrine of equivalents, identify in detail all facts and reasons (including all Documents) that support or contradict Your contention.

INTERROGATORY NO. 4.

If you contend that the '948 Patent is invalid or unenforceable, for failure to meet the conditions of patentability set forth in 35 U.S.C. §§ 101, 102, 103, 112, and/or other provisions

of patent law and procedure, state in detail all facts and reasons (including all Documents) that support or contradict Your contention.

INTERROGATORY NO. 5.

Identify all directors, officers, and employees of Rational or Rational AG, and describe the job duties of each identified person.

INTERROGATORY NO. 6.

Identify each person within Rational or Rational AG who has participated in the design, development, engineering, manufacture, testing, marketing, and/or sales of any of the SCC products, and describe the role of each identified person in connection with the design, development, engineering, manufacture, testing, marketing and/or sales.

INTERROGATORY NO. 7.

Identify each Third Party who contributed technology or components, or participated in any other way in the design, development, engineering, manufacture, testing, marketing, and/or sales of any of the SCC products, and describe the role of each identified Third Party in connection with the design, development, engineering, manufacture, testing, marketing, and/or sales.

INTERROGATORY NO. 8.

Identify every customer or potential customer, dealer, distributor or sales representative who has purchased, licensed, or leased, or inquired about purchasing, licensing, or leasing, the SCC products.

INTERROGATORY NO. 9.

Identify all Communications with any Third Party relating to TLC or FAST, this litigation, or the `948 Patent or any of its foreign counterpart patents.

INTERROGATORY NO. 10.

Identify any and all versions, releases, modifications, and/or models of the SCC products, and how these versions, releases, modifications, and/or models differ, including without limitation, any versions, releases, and/or modifications to software used to operate the SCC products.

INTERROGATORY NO. 11.

For the SCC products sold and/or offered for sale in the United States, state for each year the volume of sales, selling price, costs and profits of each product, identify the three persons most knowledgeable about each, and identify all Documents, including without limitation price lists and financial statements, relating thereto.

MORRIS, NICHOLS, ARSHT & TUNNELL LLP

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September 8, 2006

EXHIBIT 2

IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF DELAWARE

TECHNOLOGY LICENSING CORPORATION, a Florida corporation,	)	
Plaintiff,	)	
v.	)	C.A. No. 06-515-JJF
RATIONAL COOKING SYSTEMS, INC., a Delaware corporation,	)	
Defendant.	)	

TECHNOLOGY LICENSING CORPORATION'S FIRST SET OF
REQUESTS FOR PRODUCTION OF DOCUMENTS

Pursuant to Rule 34 of the Federal Rules of Civil Procedure, and other applicable rules of the Federal Rules of Civil Procedure, Plaintiff Technology Licensing Corporation ("TLC") requests that Defendant Rational Cooking Systems, Inc., ("Rational") respond to these requests and produce the documents requested at the offices of Morrison & Foerster LLP, 1290 Avenue of the Americas, New York, NY 10104, within thirty (30) days after the date of service hereof.

DEFINITIONS AND INSTRUCTIONS

1. "You" and "Your" shall mean Rational.

2. "'948 Patent" shall mean United States Patent No. 4,920,948, entitled "Parameter control system for an oven."

3. "SCC" shall mean the products marketed by Rational under the name "SelfCooking Center®", including but not limited to the SelfCooking Center® model lines 61, 62, 101, 102, 201, 202, and any products or accessories designed or marketed to function with any SelfCooking Center®.

4. "FAST" shall mean Food Automation Service Techniques, Inc.

5. "Third Party" shall mean natural persons, corporations or any other form of business entity including, but not limited to, partnerships, firms, ventures and associations, and shall further include, without limitation, divisions, branches, departments, subsidiaries, directors, officers, owners, members, employees, agents, representatives, attorneys or anyone else purporting to act on behalf of the person or entity.

6. "Document" or "Documents" are used herein in their customary broad sense, and mean any form of recording a form of communication or representation upon any tangible thing, including letters, words, pictures, sounds or symbols, or combinations thereof, including without limitation any kind of printed, produced, reproduced, coded or stored, of any kind or description, whether sent or received or not, including originals, copies, drafts and both sides thereof, and including electronic mail, papers, books, charts, graphs, photographs, drawings, correspondence, telegrams, cables, telex messages, memoranda, notes, notations, work papers, books, charts, graphs, photographs, drawings, correspondence, telegrams, cables, telex messages, memoranda, notes, notations, work papers, routing slips, intra- and inter-office communications, affidavits, statements, opinions, court pleadings, reports, indices, studies, analyses, forecasts, evaluations, contracts, computer printouts, data processing input and output, computer programs, data compilations, stored data, microfilms, microfiche, all other records kept by electronic, magnetic, photographic or mechanical means, and things similar to any of the foregoing, regardless of their author or origin, or any kind, and all other tangible things that come within the meaning of writing contained in Rule 1001 of the Federal Rules of evidence, or within the meaning of "document: or "tangible thing" contained in Rule 34 of the Federal Rules of Civil Procedure.

Every draft or non-identical copy of a "document" is a separate "document" as that term is used herein.

7. "Communication" shall mean any transmission or exchange of information between two or more persons, whether orally or in writing including without limitation any telephone telegraph, telex, telecopies, cable communicating data processors, e-mail, or some other electronic or other medium.

8. "Relating To" and "Relate To" shall mean having any connection, relation, or reference to and include, by way of example and without limitation, discussing, identifying, containing, showing, evidencing, describing, reflecting, dealing with, regarding, pertaining to, analyzing, evaluating, estimating, constituting, comprising, studying, surveying, projecting, recoding, summarizing, assessing, criticizing, reporting, commenting on, referring to in any way, either directly or indirectly, or otherwise involving, in whole or in part, Documents and Communications "relating to" or that "relate(s) to" the subject matter specified in a Document Request include, without limitation, Documents and Communications underlying or supporting, or utilized in the preparation of, any Documents or Communications responsive to each Document Request.

9. "Prior Art" shall be construed in accordance with the meaning given that term in Title 35 of the United States Code, and interpretations thereof provided by federal judiciary.

10. Whenever appropriate, the singular form of a word shall be interpreted in the plural or vice versa; verb tenses shall be interpreted to include past, present, and future tenses; and terms "and" as well as "or" shall be construed either conjunctively or disjunctively, as necessary to bring within the scope of these demands any Documents that might otherwise be

considered outside their purview; and words imparting the masculine include the feminine and vice versa.

11. You are to supplement your responses to this request as the need arises pursuant to Rule 26 of the Federal Rules of Civil Procedure.

12. If any privilege or immunity from discovery is claimed with respect to any responsive Document, the production of which would otherwise be required by this request for Document, state for each:

(a) the type of Document or Communication;

(b) the exact name and title of the Document;

(c) the date(s) of the Document or Communication;

(d) the person(s) who prepared the Document or initiated the Communication;

(e) all persons who received the Document or Communication;

(f) the reason for non-production of the Document or Communication or the claim of privilege; and

(g) the subject matter of the Document or Communication.

13. The Documents produced pursuant to these demands must be produced in the same form and in the same order in which they were maintained in the ordinary course of business. Documents are to be produced in the boxes, file folders, bindings or other containers in which the Documents are found. The title, labels or other descriptions of the boxes, file folders, binders or other containers are to be left intact.

14. If a copy of a requested Document contains comments, markings, or notations not found on a prior or subsequent version, please consider they copy and any prior or subsequent versions as separate Documents and produce all of them.

15. If requested Documents are known to have been destroyed, those Documents or class of Documents are to be identified as follows: addresser, addressee, indicated or blind copies, date, subject matter, number of pages, attachments or appendices, all persons to whom the requested Document was distributed, shown, or explained, date of destruction, person authorizing destruction, and persons destroying the Documents.

16. If a Document is responsive to a request for production and is in your control, but is not in your possession or custody, identify the person or persons with possession or custody.

17. If any Document was, but no longer is in you possession or subject to your control, state what disposition was made of it, by whom, and the date or dates or approximate date or dates on which such disposition was made and why.

18. For purposes of these requests, a Document is deemed to be in your control if any of your directors, shareholders, officers, agents, attorneys, representatives or employees have actual physical possession of the Document or a copy thereof of if you have the right to secure the Document or a copy thereof from another person or public or private entity having actual physical possession thereof.

REQUESTS FOR PRODUCTION

REQUEST NO. 1.

All Documents Relating To the structure, operation, and management of Rational, including, without limitation, Documents Relating To the relationship between Rational and Rational AG.

REQUEST NO. 2.

All documents relating to the ‘948 Patent.

REQUEST NO. 3.

All Documents that support, contradict or relate to any contention by Rational that it does not infringe, either literally or under the doctrine of equivalents, nor induce or contribute to the infringement of, any claim of the '948 Patent, regardless of whether Rational contends that the claim is invalid or unenforceable.

REQUEST NO. 4.

All Documents Relating To the date(s) on which and the circumstances under which Rational first became aware of or received copies of the '948 Patent.

REQUEST NO. 5.

All Documents Relating To any investigation, search, analysis, opinion or request for opinion regarding the scope, validity or invalidity, enforceability or unenforceability, or infringement or noninfringement of the '948 Patent, or any foreign patent application or patent that corresponds in whole or in part to the '948 Patent.

REQUEST NO. 6.

All opinions of counsel obtained with respect to infringement, validity or enforceability of the '948 Patent that You intend to rely upon at trial to defend against TLC's claim of willful infringement.

REQUEST NO. 7.

All Documents Relating To any searches performed by or on behalf of Rational of patents or other Prior Art relating to the '948 Patent, including, but not limited to, enforceability searches, infringement searches, validity searches, and Prior Art searches.

REQUEST NO. 8.

All Documents that were considered by Rational and its attorneys to form an opinion as to the infringement, validity or enforceability of the '948 Patent.

REQUEST NO. 9.

All Documents that support, contradict or relate to any contention by Rational that it has not been and is not now willfully infringing the '948 Patent.

REQUEST NO. 10.

All Documents, including correspondence and memoranda, Relating To the validity or invalidity of the '948 Patent.

REQUEST NO. 11.

All Documents Related To the manufacture, use, sale, offer to sell or importation of the SCC products in the United States.

REQUEST NO. 12.

All Documents Related To any lawsuit, interference, arbitration, or other adversarial legal proceeding involving the SCC products.

REQUEST NO. 13.

All Documents referring to TLC, FAST, FAST technology, FAST products, TLC officers, directors, or employees, or FAST officers, directors, or employees.

REQUEST NO. 14.

Documents sufficient to describe fully the design and operation of the SCC products.

REQUEST NO. 15.

All computer source code comprising, operating, or Relating To the SCC products, in both machine readable electronic form and printed hard copy.

REQUEST NO. 16.

Documents sufficient to identify each model or version of the SCC products.

REQUEST NO. 17.

Documents sufficient to describe fully the specifications and design of the SCC products, including but not limited to any work done by or involving Third Parties.

REQUEST NO. 18.

Documents sufficient to describe fully all steps in the manufacture of the SCC products, including but not limited to any steps done by or involving Third Parties.

REQUEST NO. 19.

Documents sufficient to describe fully the marketing of the SCC products, including but not limited to any steps done by or involving Third Parties.

REQUEST NO. 20.

All Documents Relating To the names and/or functions of departments, teams, or persons within Rational involved in the conception, research, development, design, engineering, implementation, testing, manufacturing, marketing, sales or use of the SCC products.

REQUEST NO. 21.

Documents sufficient to identify each person within Rational who has been involved with or participated in the research, development, design, engineering, implementation, testing, manufacturing, sales or marketing of the SCC products, and the nature of each such person's duties.

REQUEST NO. 22.

All Documents Relating To any searches performed by or on behalf of Rational of patents or other prior art regarding the SCC products, including, but not limited to, right-to-use or product clearance searches.

REQUEST NO. 23.

All Documents Relating To patents or patent applications owned, controlled, or exclusively licensed to You that relate to the SCC products.

REQUEST NO. 24.

All brochures, advertisements, press releases, customer manuals, service manuals, and other marketing and promotional materials Relating To the SCC products.

REQUEST NO. 25.

All user guides, user manuals, technical reference manuals, or other user-related documentation, including but not limited to repair or maintenance manuals, whether or not formally or officially released, Relating To the SCC products.

REQUEST NO. 26.

All functional specifications, design specifications, operational specifications, other specifications, or similar Documents Relating To the conception, design, development, testing, implementation, manufacturing or operation of the SCC products.

REQUEST NO. 27.

All technical papers, white papers, articles, or other similar Documents, whether published or unpublished, written at any time by or for Rational, or Rational personnel, concerning the SCC products.

REQUEST NO. 28.

All research files, notebooks or records Relating To the SCC products.

REQUEST NO. 29.

Documents sufficient to identify each of Your customers.

REQUEST NO. 30.

Documents sufficient to identify all customers who use or have purchased, or have communicated to Rational an interest in using or purchasing the SCC products.

REQUEST NO. 31.

All Documents Relating To Communications between Rational and actual or potential customers or suppliers SCC products.

REQUEST NO. 32.

All Documents Relating To Communications between Rational and actual or potential customers or suppliers Relating To the '948 Patent or this litigation.

REQUEST NO. 33.

All articles, speeches, presentations, or interviews written or given by any employee, officer, director, or other representative of Rational Relating To the SCC products.

REQUEST NO. 34.

All marketing and promotions materials used in the marketing, promotion, or sale of the SCC products.

REQUEST NO. 35.

All Documents Relating To Rational's decision to develop, manufacture, market, and sell the SCC products.

REQUEST NO. 36.

All Documents Relating To analysis of, studies of, or reports on, the market for the SCC products, including all Documents Related To market shares in that market.

REQUEST NO. 37.

Any marketing studies or marketing reports Relating To Rational's share and/or projected share of the markets relevant to the SCC products.

REQUEST NO. 38.

All Documents Relating To Rational's unit sales for SCC products, including, but not limited to monthly, quarterly, and annual reports of such unit sales.

REQUEST NO. 39.

All Documents Relating To Rational's costs for the SCC products, including, but not limited to monthly, quarterly, and annual reports of such costs.

REQUEST NO. 40.

All Documents Relating To Rational's profits for the SCC products, including, but not limited to monthly, quarterly, and annual reports of such profits.

REQUEST NO. 41.

Documents sufficient to show the margins or other indications of profitability of making and selling the SCC products, including, without limitation, indirect and direct labor, material, factory overhead, and selling, general and administrative expenses, and the allocation and allocation method for each of these costs.

REQUEST NO. 42.

All Documents Relating To the gross dollar sales, allowances, discounts or net dollar sales of the SCC products, including but not limited to Documents providing such information on a monthly, quarterly, annual and/or cumulative basis.

REQUEST NO. 43.

All sales reports Relating To the SCC products.

REQUEST NO. 44.

All Documents Relating To the establishment and setting of prices for the sale of the SCC products.

REQUEST NO. 45.

All Documents Relating To forecasts or projections concerning the importing, exporting, offering for sale, and sale of the SCC products.

REQUEST NO. 46.

All business plans Relating To SCC products, including strategic plans, operating plans, marketing plans, financial plans, production plans and capital or investment plans.

REQUEST NO. 47.

All licenses between Rational and anyone regarding any technology or component used in the SCC products.

REQUEST NO. 48.

Documents sufficient to identify all of Your corporate partners in connection with SCC products.

REQUEST NO. 49.

Documents sufficient to describe Your corporate organizational structure, including but not limited to Your relationship with Rational AG, and/or any other parent company to which You are related.

REQUEST NO. 50.

Organizational charts or other Documents sufficient to establish the organizational structure and reporting relationships within the executive, marketing, research and development, manufacturing, and sales departments of Rational sufficient to establish the identities of the persons holding the positions in those departments, from 2000 until the present.

REQUEST NO. 51.

All Documents Relating To Your document retention or destruction policies.

REQUEST NO. 52.

All Documents You relied upon to provide Your responses to any of the interrogatories in Technology Licensing Corporation's First Set of Interrogatories, served concurrently herewith.

REQUEST NO. 53.

All Documents the identification of which is sought by TLC's First Set of Interrogatories.

REQUEST NO. 54.

All Documents Relating To any alternative designs explored, considered, proposed, or made by Rational but not implemented in the SCC products.

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September 8, 2006

EXHIBIT C

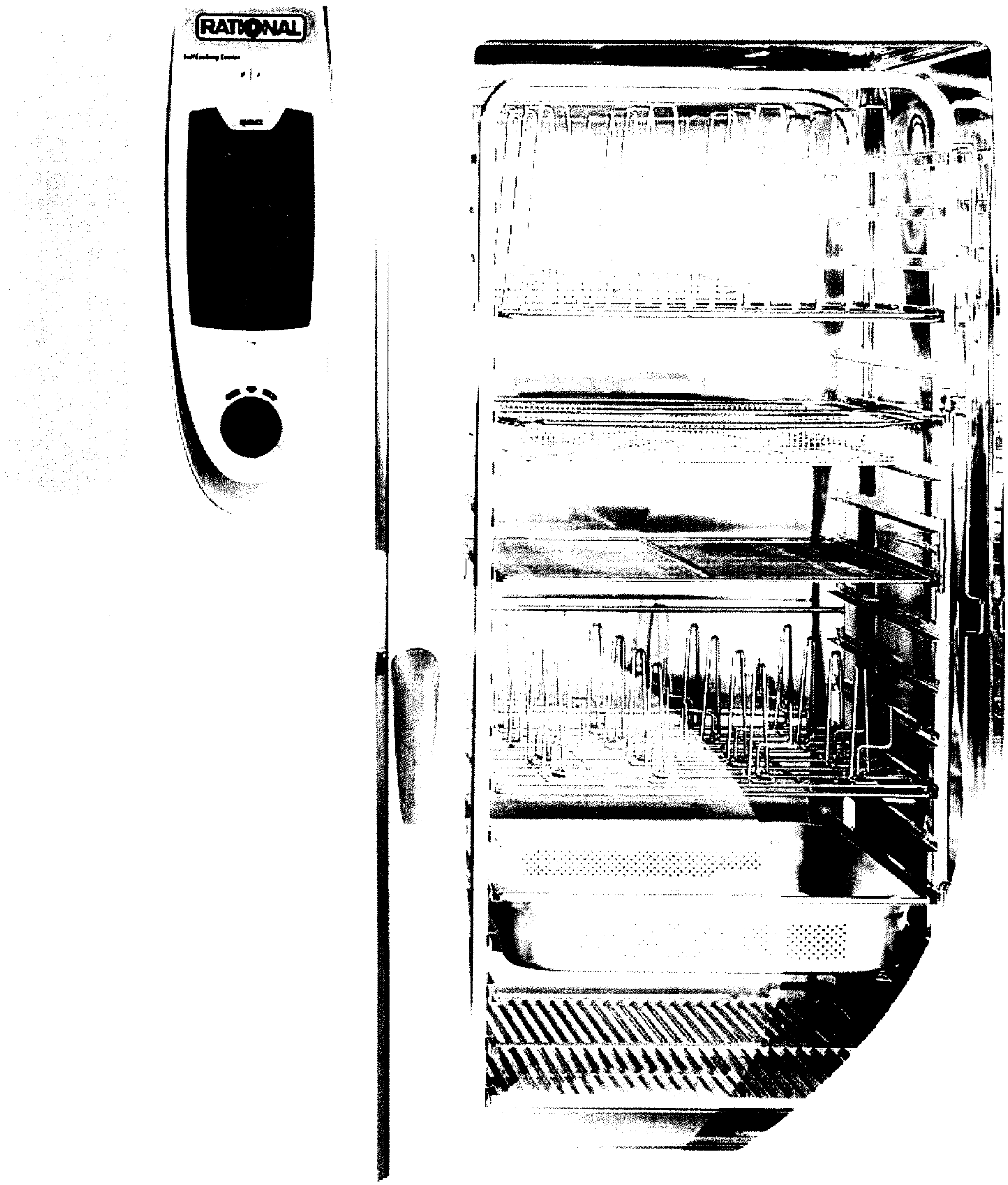
RATIONAL

Annual Report 2005

Annual Report 2005 RATIONAL Aktiengesellschaft

LEVERAGING OPPORTUNITIES

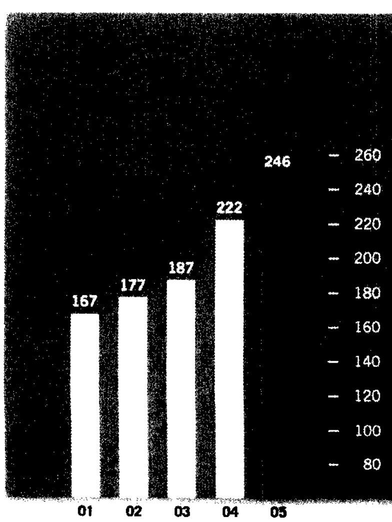
The Company at a Glance ⇛



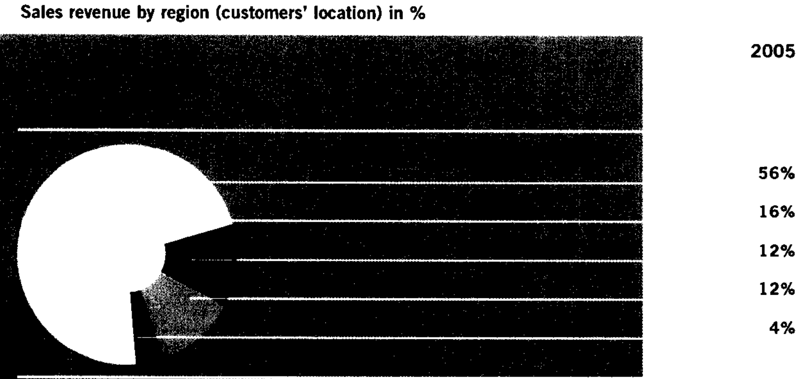
The Company at a Glance

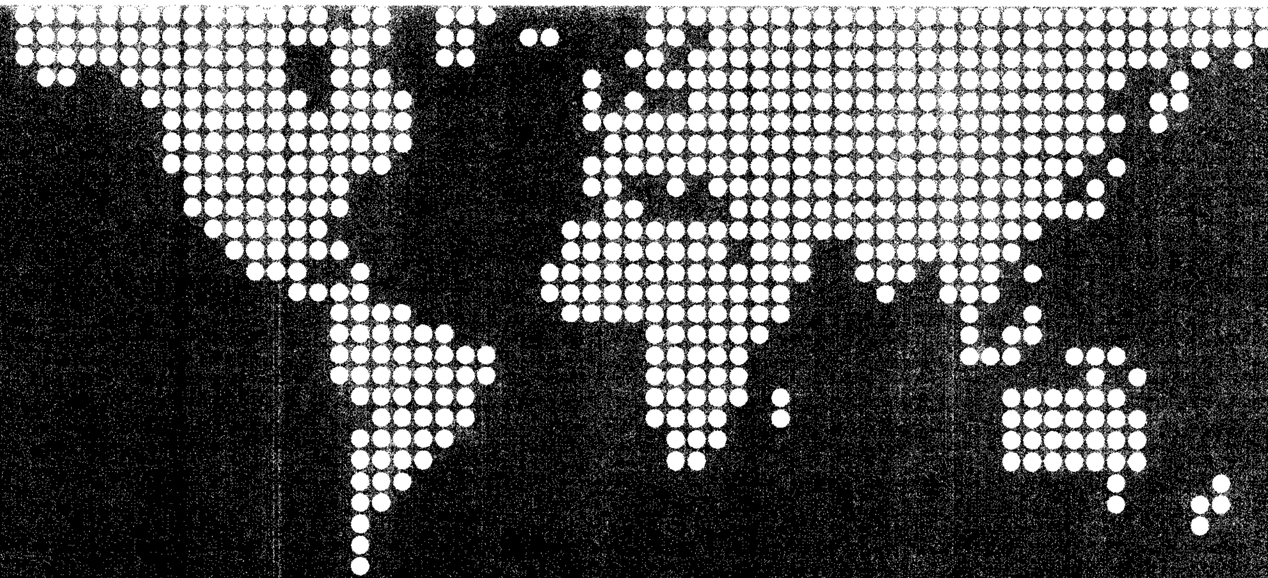
Figures in thousands of euros	2005	2004	Change
[redacted]	246,410	221,815	+ 11%
	84%	84%	+/– 0%-pts.
	96,662	90,294	+ 7%
	39.2%	40.7%	
	61,390	56,892	+ 8%
	24.9%	25.6%	
	10,011	10,428	– 4%
	4.1%	4.7%	
	11,693	10,161	+ 15%
	4.7%	4.6%	
	66,906	53,340	+ 25%
	27.2%	24.0%	
	67,224	53,853	+ 25%
	27.3%	24.3%	
	42,377	33,845	+ 25%
	17.2%	15.3%	
	3.73	2.98	
	32,759	39,232	– 16%
	2.88	3.45	
	132,136	146,763	– 10%
	89,924	104,077	– 14%
	68.1%	70.9%	
	67.9%	48.0%	+ 19.9%-pts.
	53,009	40,948	29%
	21.5%	18.5%	
	792	742	+ 7%
	311.1	298.9	+ 4%

Sales in millions of euros



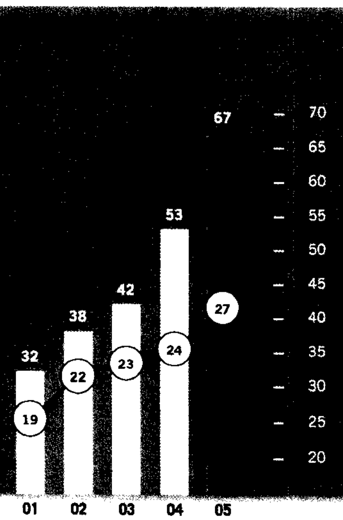
Sales revenue by region (customers' location) in %



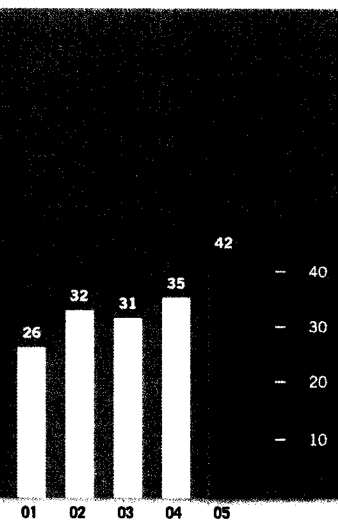


The value of RATIONAL as a company grew once again in the fiscal year 2005.
The ROIC stands at an excellent 42 percent, well above the previous year's figure.

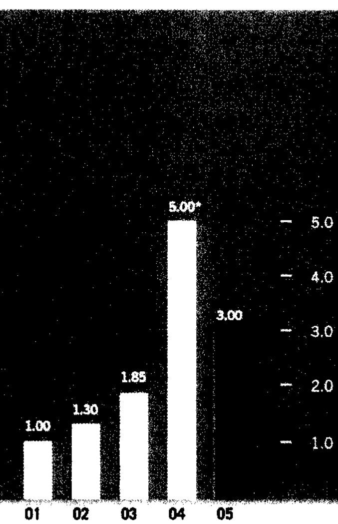
EBIT in millions of euros



ROIC in %



Cash dividend per share in euros



* extra dividend for 2004.
Figures for 2005 subject to approval of the Shareholders' Meeting.

27 %

Innovations and productivity gains coupled with ongoing process optimisation and increased efficiency in all parts of the company have once again led to an exceptional strong increase in the company's earning power. EBIT-margin rose to a new record level of more than 27 percent in 2005.

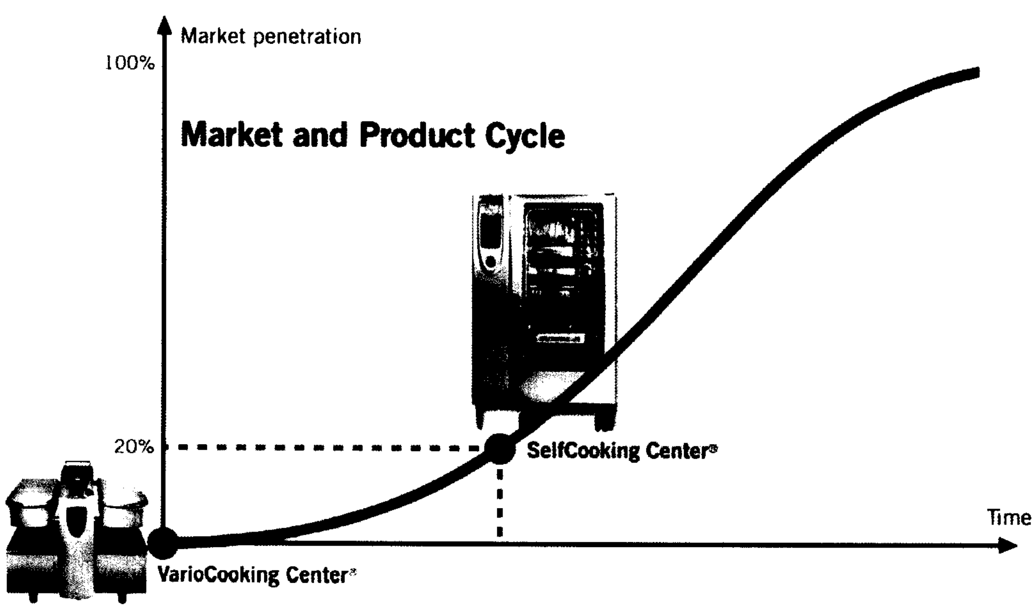
Contents

Leverage opportunities through technology

The RATIONAL combi-steamer has changed the world

For around 30 years RATIONAL has been closely involved with technologies for preparing food thermally in professional kitchens all over the world. During this period we have vastly improved the performance of the entire food service industry thanks to systematic research and groundbreaking innovations. This was only possible because we consistently focused our entrepreneurial vision and operations on a single target group from the very outset, and on their wishes and needs – the professionals in commercial kitchens. Our overriding corporate goal and the key to our success has been to offer maximum benefits to everyone in the industry.

The development of the RATIONAL combi-steamer has significantly improved the way those individuals work in professional kitchens, paving the way for an ongoing revolution in the industry. In effect we have revolutionised the production processes used in thermal food preparation and, in turn, the entire industry that manufactures these kinds of appliances.



Siegfried Meister
Chairman of the
Supervisory Board

The SelfCooking Center® heralds a new era

RATIONAL made another technological leap forward in 2004 with the invention of the world's first SelfCooking Center®. The company managed to firmly establish this groundbreaking technology as the new world standard barely a year after its launch. The SelfCooking Center® adopts the principle of 'keep it simple', giving rise to an entirely new era in thermal food preparation. It is a radical departure from the emphasis on more and more overt technology, complicated operating concepts, costly training courses, constantly monitoring cooking processes and many of the routine chores required in the past. For the chef it now means less stress and more time for the essentials, for quality and creativity in particular. It has brought the excitement firmly back into cooking.

Complementary technology opens up entirely new opportunities

The SelfCooking Center® technology replaces around 40 to 50 percent of all traditional cooking appliances in a professional kitchen by cooking products using hot, fast-flowing air wherever possible.
In 2005 the RATIONAL subsidiary FRIMA invented a revolutionary complementary technology in the guise of the VarioCooking Center®, which has already been successfully launched in selected European markets. The other traditional cooking appliances can now be replaced in one fell swoop with just one additional unit. What's more this new technology slots in ideally with the SelfCooking Center®, opening up exciting new opportunities for growth.

Ideally prepared for the future

Thanks to the complementary technology we have managed to raise overall customer benefits to an entirely new level. RATIONAL is becoming an increasingly attractive partner for customers as we continually extend our competitive lead, thereby preparing us ideally for the challenges ahead.
The particular challenge we face over the next few years is how we can more effectively reach and win over prospective new customers, wherever they are, with our unique benefits proposition.

Siegfried Meister, born in 1938, studied electrical engineering. The founder of RATIONAL AG systematically developed the company into a global enterprise offering professional kitchen technology. The entrepreneur guided the RATIONAL Group as Managing Director until it was turned into a public limited company. Since then, he has taken on a controlling function as Chairman of the Supervisory Board and assists the company in an active and committed way with his vast experience and guidance.

Leverage opportunities through internationalisation

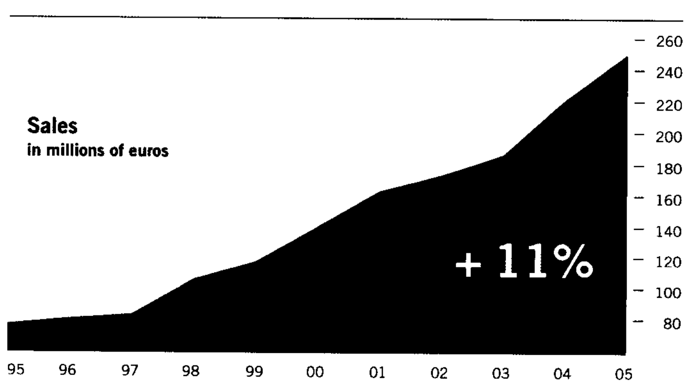
Sluggish growth hits global economy

In 2005 the pace of growth of global GDP moved down a gear to 4.1 percent in 2005. In this respect the USA will continue to act as the engine driving growth in 2005. Despite the hike in interest rates to combat increasing inflation and despite the massive financial losses caused by Hurricanes Katrina and Rita, the American economy will grow 3.6 percent in 2005.

Japan will also grow somewhere in the region of 2 percent in 2005, fuelled especially by an increase in domestic demand. In the past the Japanese economy was buoyed by its dynamic exports, a position however recently taken over by its Chinese neighbour.

The absolute growth champion in the Asian region remains China, posting annual growth between 8 and 9 percent. While exports remain the main driver behind economic growth, private consumption has taken off too. The economic outlook for China also received another boost recently when it joined the WTO.

Turbulent times currently dog Europe's economies, reflected in the fall in growth to 1.4 percent in 2005. The eurozone is particularly vulnerable to any sudden shocks. The relentless rise in crude oil prices coupled with the recent sharp devaluation of the US dollar continue to seriously undermine the prospects of recovery.



Dr. Günter Blaschke
Chief Executive Officer

Germany has been crawling forward at a snail's pace, with growth significantly below global levels for several years. The forecast 1.1 percent growth in 2005 on the back of the 1.6 percent seen in 2004 is mainly attributable to the absence of any root-and-branch reform, which would essentially involve tax cuts, cuts in social security benefits and promoting labour market flexibility.
However, RATIONAL managed to largely shield itself from the overall dip in the world economy in 2005.

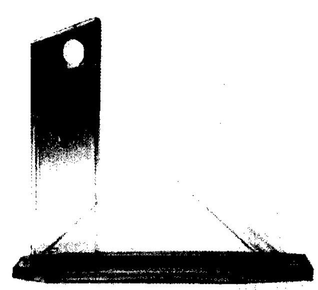
11 % sales growth
Sales revenue totalled € 246.4 million (previous year: € 221.8 million) in 2005, effectively posting double-digit growth in sales revenue or the equivalent of € 24.6 million. Thanks to this strong growth we even managed to offset the one-off basic effect in 2004 associated with building up stocks at our export partners as part of the SelfCooking Center® launch.

International subsidiaries grow 22 %
International subsidiaries have contributed strongly to the positive development by posting growth of 22 percent. This is once again an impressive endorsement of our successful global strategy of opening up the most promising markets with our own, highly specialised organisations.

The SelfCooking Center® as the new global standard
Around the world the SelfCooking Center® has caused a major stir in the trade press, with distributors, planning specialists and customers alike. In addition to numerous international awards for outstanding innovation in France, the US and Canada we are particularly proud to have been awarded the 'Dr.-Georg-Triebe-Prize' for Innovation by the German Association of Planning Specialists (VdF) in September 2005.

From a financial perspective, the SelfCooking Center® has been the most successful product in RATIONAL's corporate history. This technology has already firmly established itself as the new global standard with over 20,000 appliances being sold within a year of the launch.

Dr. Günter Blaschke, born in 1949, gained his doctorate after studying business management at the University of Cologne in the industrial economics department. He began his professional career in 1978 working as Assistant Manager for Marketing at Procter & Gamble GmbH, Schwalbach. From 1981 to 1990, he managed marketing, product management and video product sales departments at 3M Germany and later at 3M Europe in Brussels. From 1990, Dr. Blaschke was alternately responsible for domestic and foreign sales, marketing, production and research & development at Joh. Vaillant GmbH & Co. KG, Remscheid. In March 1997, he moved to RATIONAL GmbH to take up his post as Managing Director. He has been the CEO since September 1999.



'Dr.-Georg-Triebe-Prize' for Innovation

RATIONAL belongs to the Top 10 of the most profitable companies

EBIT-margin tops 27 %

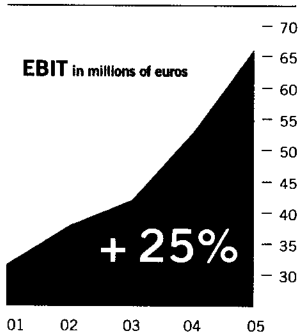
Additional productivity gains in the production area coupled with ongoing process optimisation and increased efficiency in all parts of the company have once again led to an exceptionally strong increase in the company's earning power.
EBIT of € 66.9 million was up 25 percent on the previous year's figure of € 53.3 million. EBIT-margin rose from 24.0 percent in 2004 to 27.2 percent in 2005.

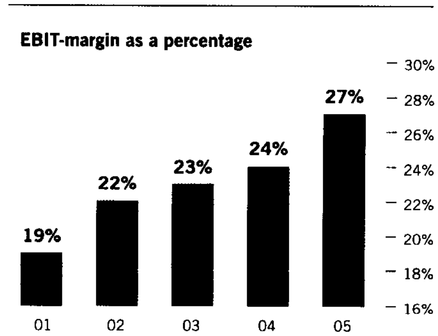
High cash flow permits attractive dividends

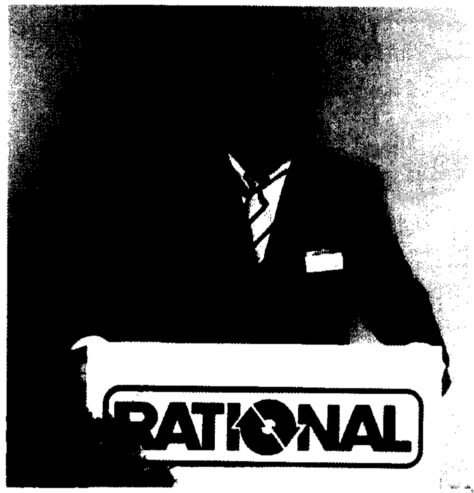
Despite the high payments of tax arrears caused by the exceptionally strong growth in earnings in 2004, excellent operating cash flow of € 32.8 million was yielded in 2005. This cash flow will be used for the ongoing expansion of the global sales network, the expansion of production capacity as well as paying out an attractive dividend to our shareholders.

RATIONAL belongs to the Top Ten most profitable companies

RATIONAL's score of 825 points in the 'Handelsblatt' company ranking on August 22, 2005 placed the company in the 'Exceptional earning power' category. All in all 132 listed companies were analysed. The average score was a modest 485 points. With 850 points we came in, only a few points behind SAP, ranked No. 1 with a score of 950 points.







"The RATIONAL share price reflects our record achievements in 2005 but above all our exceptionally bright future outlook."

RATIONAL share price breaks through the 100-euro-mark for the first time

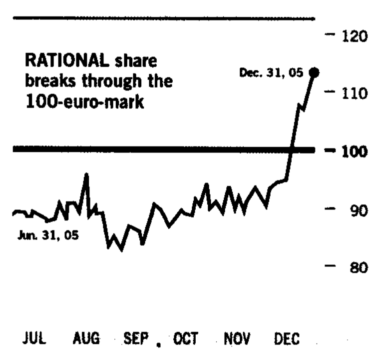
The price of the RATIONAL share broke through the 100-euro-mark for the first time on December 12, 2005. The increase in the share price impressively reflects current performance but also attests to the company's exceptional future outlook. Undoubtedly RATIONAL is one of the jewels of the sector and equally one of the jewels in the German stock market.

World market share rises to 52%

RATIONAL also managed to further increase its world market share from 51 to 52 percent in 2005. The concentration of resources on the world's most promising countries, RATIONAL's superior product technology and the consistent implementation of the RATIONAL sales and marketing process once again proved to be the critical success factors.

RATIONAL Consultant-InfoFinder – unique global information platform

Kitchen consultants are important independent opinion leaders around the world by virtue of their role in specifying technology for large kitchen projects and calls for tender. RATIONAL set up a cutting-edge, Internet-based information forum in 2005 to reach this target group. The aim was to provide kitchen consultants with extensive technical information and groundbreaking planning solution projects from around the world using a standard database structure with information constantly updated. Over 1500 kitchen designers from 40 countries had registered within a matter of weeks and at present over 400 designers access this new, unique RATIONAL service every day.



Leverage opportunities through innovation

The world's first VarioCooking Center®

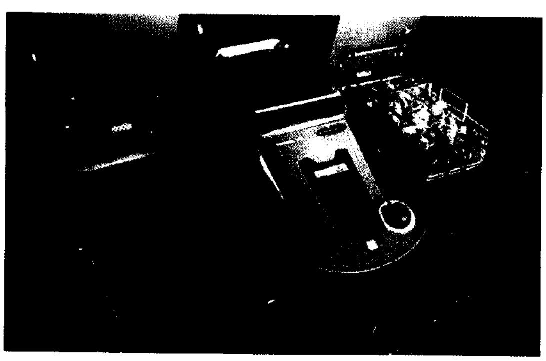
Our French subsidiary FRIMA developed an entirely new, revolutionary complementary product to supplement the SelfCooking Center®: the VarioCooking Center®. In May 2005 it was successfully launched in selected European test markets. While the SelfCooking Center® can be used to cook any product using hot, fast-flowing air, the new VarioCooking Center® covers the remaining products in a professional kitchen cooked in a fluid or using direct contact heat.

The complete thermal kitchen with a minimal footprint of less than 2 square meters

If the SelfCooking Center® already replaces 40 to 50 percent of all conventional cooking appliances at present, the VarioCooking Center® makes the other half redundant. The kitchen is complete by combining the two appliances in a minimum space. An exclusive menu for 100 guests in just 50 minutes is child's play.

Customer benefits in a class of its own

There is the right VarioCooking Center® for every customer, i.e. from the restaurant with 30 to 50 meals a day through to the largest kitchen used by institutional customers.
The VarioCooking Center® offers customers a similar range of benefits as the SelfCooking Center® at an extremely low price. Virtually in a class of its own, the appliance will pay for itself within just four to twelve months.



Peter Wiedemann
Chief Technical Officer

Peter Wiedemann, born in 1959, joined RATIONAL GmbH in 1988 as an engineer after studying mechanical engineering at the Technical University of Munich. From 1990 to 1993, he was Product Manager. Subsequently, he supported the development of the American subsidiary. Since January 1996, he has been responsible for the technical division as a member of the management team. In September 1999, he was appointed as Chief Technical Officer to the Executive Board of RATIONAL AG.

High customer acceptance

A few weeks after the launch of the new VarioCooking Center® in the selected test markets the enthusiastic response from distributors, designers and customers was overwhelming. As early as September 2005 the VarioCooking Center® received the 'Dr.-Georg-Triebe-Prize' for Innovation 2005 from the German Association of Planning Specialists (VdF) for outstanding system innovation.

A new world market has been created

As happened with the invention of the combi-steamer more than 30 years ago, the VarioCooking Center® has once again created a new world market. The untapped potential for this technology is 2.5 million professional kitchens, potential that has to be exploited over the next few years.

Supplier quality is an important success factor

As a company with little vertical integration, the quality and reliability of our suppliers are crucial to the company's success. Following the principle of extending our production facilities outside the company, we have formed close partnerships with our system suppliers. This kind of cooperation involves supplier certification, annual partner plans to increase quality and productivity, monthly reporting of key performance indicators, regular audits and continued cost improvements via joint reengineering projects with selected suppliers.
Our best suppliers were honoured for their excellent work as part of the supplier conference held on May 12, 2005.

Leverage opportunities through employee quality

54 new jobs in 2005

Additional demand is the key to creating new jobs. In 2005 RATIONAL has managed to create 54 new highly skilled jobs in various parts of the world. Thanks to the continual increase in productivity and efficiency in all our corporate divisions, in 2005 revenue per employee has topped the € 300,000 mark for the first time.

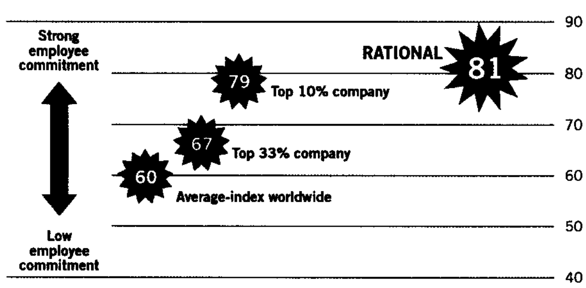
Employee satisfaction outstanding high

Company quality is essentially employee quality. No company in the world is better than the sum of its staff. Above all, employee quality demands optimum employee satisfaction that, in turn, will only thrive in an atmosphere of outstanding personal and professional development.

NFO/Infratest also carried out an employee survey for us in 2005. The results were impressive testimony to RATIONAL's global leading position. Compared with other multinational companies from a wide range of sectors, RATIONAL is among the top 10 percent of the best companies with the highest employee satisfaction and retention scores.

Our impressive 81 index points is worlds apart from the modest score of 60 averaged by the multinational companies in the survey overall.

Employee satisfaction



Erich Baumgärtner
Chief Financial Officer

Improved growth opportunities

Despite the successes in the past, the untapped world market potential for the SelfCooking Center® is around 2 million kitchens or still 80 percent. The new VarioCooking Center® technology also exactly covers the same target group. As such the untapped world market potential for this technology alone totals 2.5 million kitchens or practically 100 percent again.

Strong growth in sales and earnings in 2006 expected

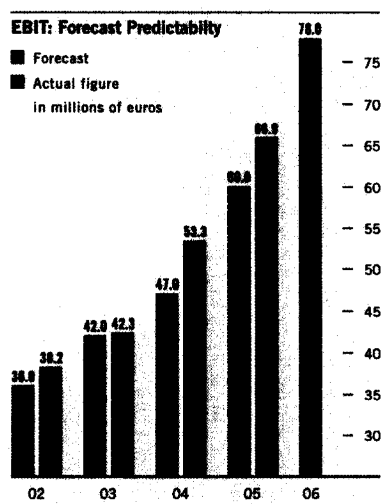
In 2005 we managed to roll out a far more advanced technology platform for our customers. Meanwhile the international sales and marketing network has been significantly extended. The targeted development of strategic key markets will receive a further boost in January with two new sales companies: RATIONAL International and FRIMA International, both headquartered in Switzerland.
Against this backdrop together with the planned projects and investments, we expect increased sales growth of 15 percent to € 283 million coupled with an even stronger 17 percent increase in earnings to € 78 million (EBIT) in 2006.

Employees as entrepreneurs within the enterprise

Ambitious targets call for extraordinary employees. Employee skills, creativity, commitment and identification of all employees with the company goals are crucial in this respect. One of RATIONAL's great strengths is that our employees think and act as entrepreneurs within the company. They are our greatest asset in guaranteeing RATIONAL's continued success going forward.

We would like to thank all our customers, partners, suppliers, shareholders and especially our employees for the confidence they have placed in RATIONAL.

Erich Baumgärtner, born in 1954, studied business management at Rosenheim Technical College. From 1979 to 1987, he worked in various commercial functions at Messerschmitt-Bölkow-Blohm GmbH, Ottobrunn. His last position at the company was managing the tender department of the appliance division. In 1988, he moved to Digital Equipment GmbH, Munich, where, from 1996 on, he was responsible for commercial operations as Managing Director. In October 1998, he came to RATIONAL GmbH. Since December 1998, he has been responsible for commercial operations on the Executive Board of RATIONAL AG.



Corporate Governance Report

Basic structural conditions

Rational AG is an Aktiengesellschaft (public limited company) under German law with its registered headquarter in Landsberg am Lech. The company is administered by an Executive Board and a Supervisory Board.

The composition of the Executive Board and of the Supervisory Board is unchanged since last year. The members of the Executive Board are still Dr. Günter Blaschke (Chief Executive Officer), Mr Peter Wiedemann (Chief Technology Officer) and Mr Erich Baumgärtner (Chief Financial Officer). The Supervisory Board still consists of Mr Siegfried Meister (Chairman of the Supervisory Board), Mr Walter Kurtz (Deputy Chairman of the Supervisory Board) and Mr Roland Poczka (Member of the Supervisory Board). Since the Supervisory Board comprises just three members, no committees are formed. The Executive Board submits detailed reports to the Supervisory Board each month about the current business situation and the strategic orientation of the business. Six regular meetings of the Supervisory Board were held in 2005 in addition to numerous individual discussions.

For the performance of their tasks the Executive Board of RATIONAL AG received remuneration totalling € 2,244 thousand in 2005, of which € 1,228 thousand was paid out as a performance-related, variable component. The expenses of the Supervisory Board for its control and consultancy activities were reimbursed by payments totalling € 504 thousand. Of this, Mr Meister received € 201 thousand, Mr Kurtz € 170 thousand and Mr Poczka € 133 thousand (cf. note "Statement on the German Corporate Governance Code" page 110).

Principles of responsible corporate management

The Executive Board and the Supervisory Board of RATIONAL AG have always striven to take all actions and decisions on the basis of corporate management which is responsible and which is geared to long-term, sustained value creation. Openness and transparency in corporate communication and consideration of the interests of shareholders are principles of paramount importance to RATIONAL.

In consequence of this, RATIONAL AG welcomes the German Corporate Governance Code, published by the Government Commission on February 26, 2002 and most recently amended on June 2, 2005, along with the standards and recommendations contained therein.

"RATIONAL has always striven to take all actions and decisions on the basis of corporate management which is responsible and which is geared to long-term, sustained value creation."

EXHIBIT C

Declaration of compliance by RATIONAL AG

Pursuant to Article 161 of the Stock Corporation Act (AktG) the Executive Board and the Supervisory Board of RATIONAL AG submitted the first declaration of compliance with the German Corporate Governance Code on February 18, 2003. The present version has been amended in accordance with the current edition of June 2, 2005.
RATIONAL Aktiengesellschaft therefore complies with the recommendations of the Government Commission on the German Corporate Governance Code, with the exception of:

Re 3.8 "If the company takes out a **D&O** (directors' and officers' liability insurance) policy for the Management Board and Supervisory Board, a suitable deduction should be agreed."
A Directors' & Officers' policy has been taken out for the members of the Executive Board and Supervisory Board. No specific deduction for the insured parties has been agreed.

Re 4.2.4 "**Compensation of the members of the Management Board** shall be reported in the Notes of the Consolidated Financial Statements subdivided according to fixed, performance-related and long-term incentive components. The figures shall be individualized."
With the exception of the individualized figures for Executive Board compensation, this provision is complied with in full.

Re 5.3.1 "Formation of committees"
Forming committees of the Supervisory Board to handle complex issues, such as an Audit Committee, is not appropriate for RATIONAL Aktiengesellschaft because the Supervisory Board consists of only three members. Forming committees comprising fewer than three members of the Supervisory Board would not result in any further increase in the efficiency of the Supervisory Board.

Re 5.4.2 "The Supervisory Board shall include what it considers an adequate number of **independent members**."
As founder of the company the Chairman of the Supervisory Board, Siegfried Meister, holds 63.0 percent of the issued RATIONAL shares. The Deputy Chairman of the Supervisory Board, Walter Kurtz, holds 7.8 percent of the shares. As independent member of the Supervisory Board, Mr Roland Poczka's shareholding is well under one percent.

Mandatory publications in 2005

In 2005 RATIONAL AG provided information for shareholders and interested parties pursuant to § 15 German Securities Trading Act (WpHG) in the form of five detailed, up-to-date ad-hoc communications within the prescribed periods concerning the company's position as regards finance, assets and revenue. There were no notifiable share transactions by the Supervisory Board or the Executive Board under §15a WpHG in 2005. Further information on the business was provided to shareholders in the form of the annual and quarterly reports, press and capital market conferences and individual meetings, as well as on RATIONAL's Internet site.

Stock option scheme

On February 3, 2000 RATIONAL AG launched a stock option scheme for members of the Executive Board for a maximum of 200,000 individual shares in the company. The stock options are subject to waiting periods and time limits for exercising the rights, which are decided on by the Supervisory Board. The exercise of option rights is linked to a specified increase in the value of the enterprise measured against the SDAX Performance Index. In February 2000 a first tranche of 34,500 option rights was issued, which was drawn on in 2002 in the form of a cash settlement.
A second tranche of 34,500 option rights was issued in January 2004; the waiting period ends in March 2006 (cf. note "Stock option plans" page 109). As at balance sheet date 2005 the shareholding of the board members stands at well below one percent.

Landsberg am Lech, January 2006

RATIONAL Aktiengesellschaft

The Supervisory Board The Executive Board

Research Coverage 2005/06

Dresdner Kleinwort Wasserstein	Jan	Add
Cheuvreux	Nov	Outperform
Merrill Lynch	Nov	–
LBBW	Nov	Hold
Sal. Oppenheim	Nov	Neutral
HVB Equity Research	Nov	Underperform
Citigroup	Nov	Buy
Berenberg Bank	Sep	Buy
Cazenove	July	In-line
HSBC Trinkaus & Burkhardt	July	Overweight
Commerzbank AG	May	Hold
Bankhaus Lampe	May	Buy
Deutsche Bank	May	Buy

Investor Relations

RATIONAL value-added shares break through the 100-euro-mark for the first time

In what was a generally bullish stock market, RATIONAL value-added shares have once again done justice to their special position as one of the jewels in the German stock exchange crown over the past 12 months. On December 12, 2005 the share price topped the 100-euro-mark for the first time. Thanks to a 64 percent increase in the share price to € 112.27 as at December 31, 2005, the shares easily outperformed the exceptionally strong growth already seen in the German stock market's DAX (27 percent), MDAX (36 percent) and SDAX (35 percent) indices.

A large number of analysts expect the RATIONAL share price to go way beyond the 100-euro-mark over the next year and therefore still recommend the share as 'Buy'. This attractive valuation is based on the excellent balance sheet structure, the strong growth in cash flow and the high dividend yield. Other key factors include the unique business model with above-average margins and the company's excellent opportunities for growth.

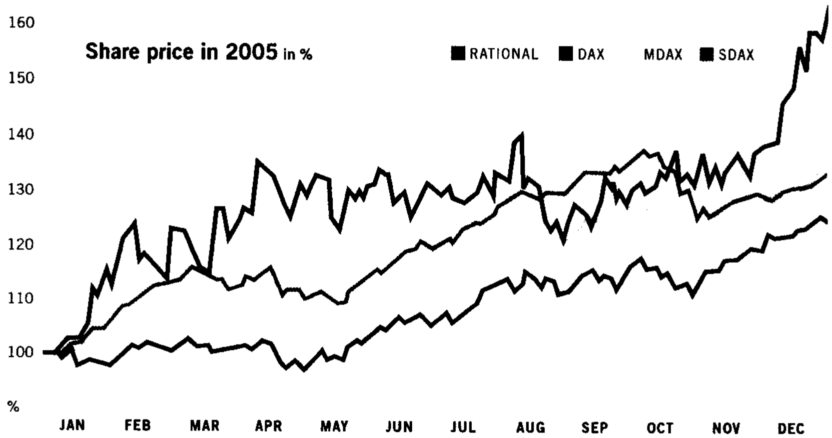
Attractive dividend

In addition to the sharp rise in the share price, the attractive dividend policy also underpins the RATIONAL share's position as a high-yield form of investment. For the financial year 2005 the Executive Board and Supervisory Board propose paying a dividend of € 3.00 per share.

High cash flow and low tied-up capital as a result of limited vertical integration, pure to order production and excellent receivables and inventory management permit this high dividend while nonetheless securing the necessary finance for the company's strategic growth targets.

Investor relations – a very high priority

RATIONAL gives investor relations a very high priority. This is reflected in the fact that the Executive Board is always on hand in person to answer any questions on the company's situation and future developments that shareholders, analysts, fund managers and prospective investors may have.



At numerous roadshows in the USA and Europe the company has been presented to an increasing number of new institutional investors. RATIONAL has also taken part in international analysts' conferences in London, Kronberg, Frankfurt and Munich, as well as press interviews attended by representatives from the business and financial press. The confidence in the future successful development of the company is ultimately a result of the hard work put into investor relations.

Top spot for RATIONAL Annual Report 2004

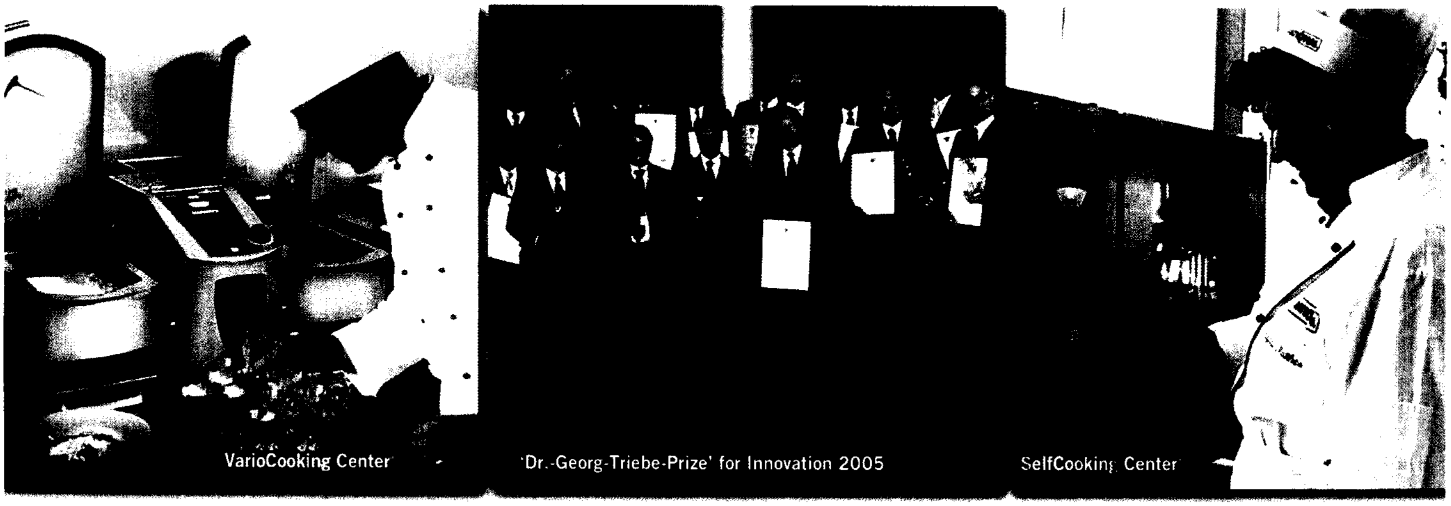
Alongside the awards for RATIONAL AG's superior technology and innovation, the company's financial communications have once again been singled out for high praise. The RATIONAL Annual Report 2004 was awarded the Vision Award Platinum – 2004 by the League of American Communication Professionals (LACP) as the best annual report in the Equipment, Machinery, Instruments category. Scoring 95 out of a possible 100, RATIONAL excelled in the categories of transparency, informative value, financial information, creativity and layout, beating off a highly competitive field.

Renowned institutions cover RATIONAL

Merrill Lynch, Deutsche Bank, Dresdner Kleinwort Wasserstein, WestLB and Bankhaus Lampe were another five renowned institutions that included coverage of RATIONAL AG in 2005 alone. The analysts' in-depth studies all echo the same positive sentiment, especially in relation to entrepreneurial quality and future growth opportunities.

Financial Calendar 2006

Mar. 03, 06	**Balance Sheet Press Conference and DVFA Conference**
May 17, 06	**Shareholders' Meeting**
May 17, 06	**Q1 Results**
Aug. 08, 06	**Half-Year Results**
Nov. 07, 06	**9-Month Results**



VarioCooking Center 'Dr.-Georg-Triebe-Prize' for Innovation 2005 SelfCooking Center

Manufacturer of the Year
The Electric Food Service Council in North America selects RATIONAL as the Manufacturer of the Year.

2005 Shareholders' Meeting
Some 600 shareholders attended the 2005 Shareholders' Meeting and were delighted with the continued success of RATIONAL AG. All the proposals put forward by the management team received widespread approval.

SelfCooking Center® receives numerous international awards
In addition to numerous awards in France, the US and Canada, the SelfCooking Center® received the 'Dr.-Georg-Triebe-Prize' for Innovation 2005 from the German Association of Planning Specialists (VdF) for outstanding innovation.

New subsidiaries
In 2005 seven new sales companies were set up in Austria, Poland, France, Germany and Switzerland in the drive to open up new markets.

The world's first VarioCooking Center®
In May 2005 the complementary product developed by the French subsidiary FRIMA was successfully launched in selected European test markets.

Supplier conference – a win-win situation
On May 12, 2005 the best suppliers from 2004 were honoured as part of the supplier conference.

VarioCooking Center® scoops award
As early as September 2005 the VarioCooking Center® was awarded the 'Dr.-Georg-Triebe-Prize' for Innovation 2005 from the German Association of Planning Specialists (VdF) for its outstanding system innovation.

Events 2005

RATIONAL de Paris

Company anniversaries

54 new jobs
Another 54 highly skilled jobs were created in 2005.

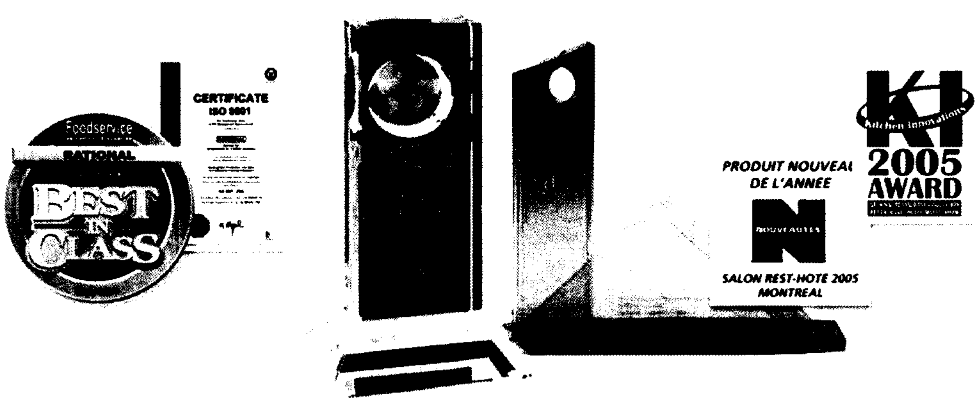
RATIONAL claims No. 1 spot
Based on an assessment of sales growth and pace of growth of all German suppliers of equipment and accessories for professional kitchens, RATIONAL was ranked No. 1 by the trade publications 'GV-Praxis' and Food Service in 2005.

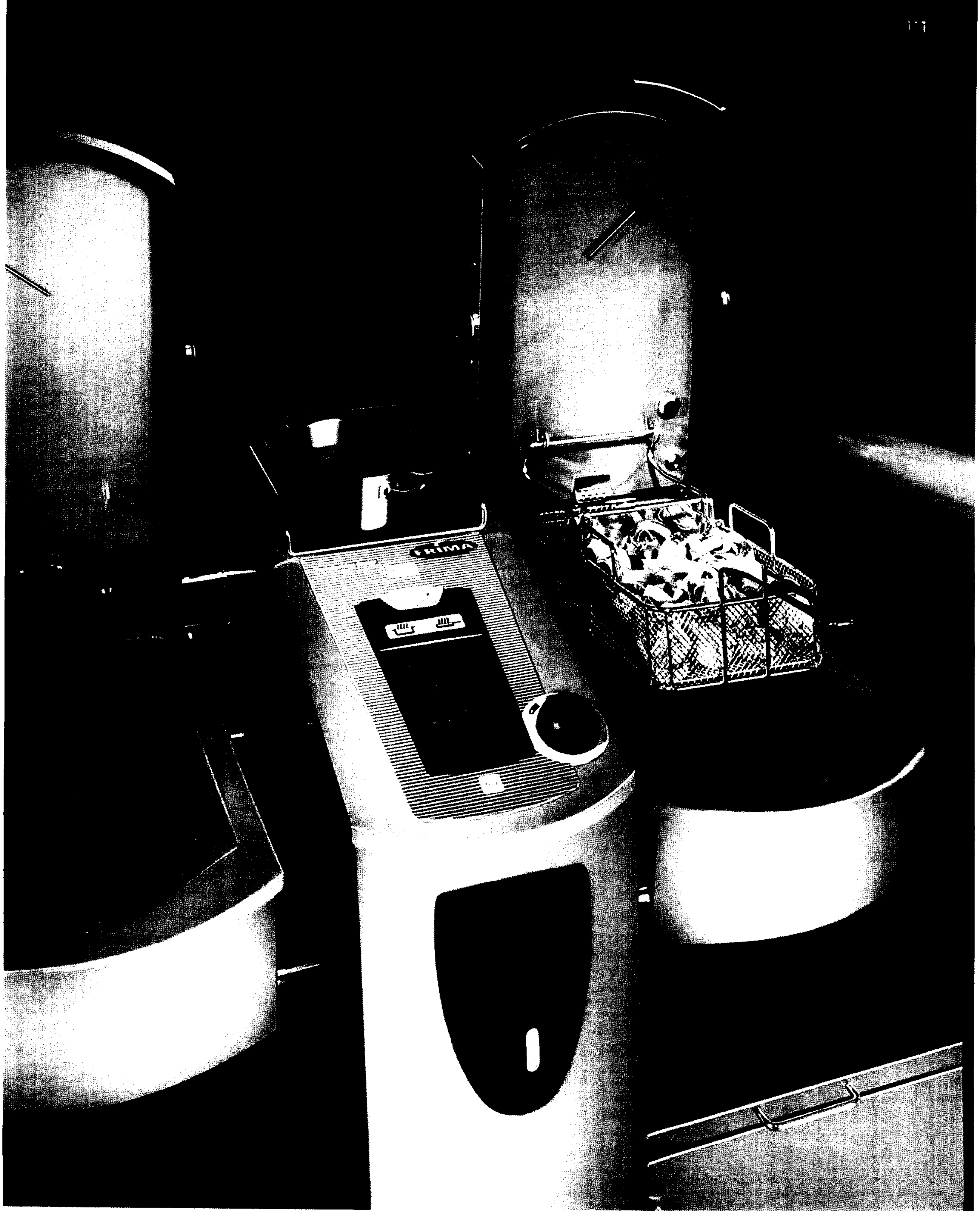
Company anniversaries
Two employees from the early days celebrated 25 years at RATIONAL in 2005. Another 15 employees were honoured for ten years' service at RATIONAL.

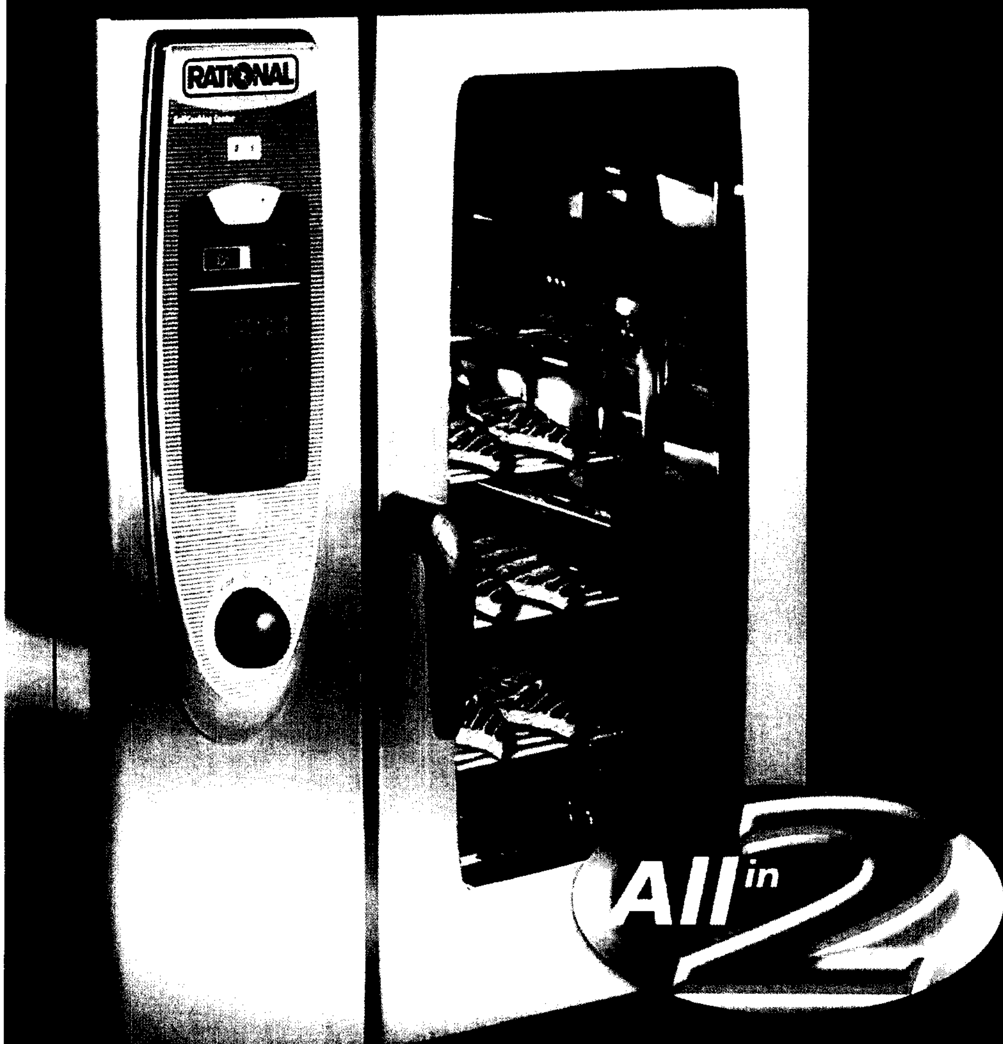
RATIONAL among the Top 10
An analysis of the earning power of listed companies in Germany by the 'Handelsblatt' newspaper ranked RATIONAL among Germany's Top 10 best companies.

Germany 5,000
More than 5,000 appliances were sold in Germany in 2005, which means sales revenue growth of 12 percent.

Employee satisfaction at record level
Results from the 2005 employee survey show RATIONAL among the top 10 percent of the best companies worldwide in terms of employee satisfaction and retention.

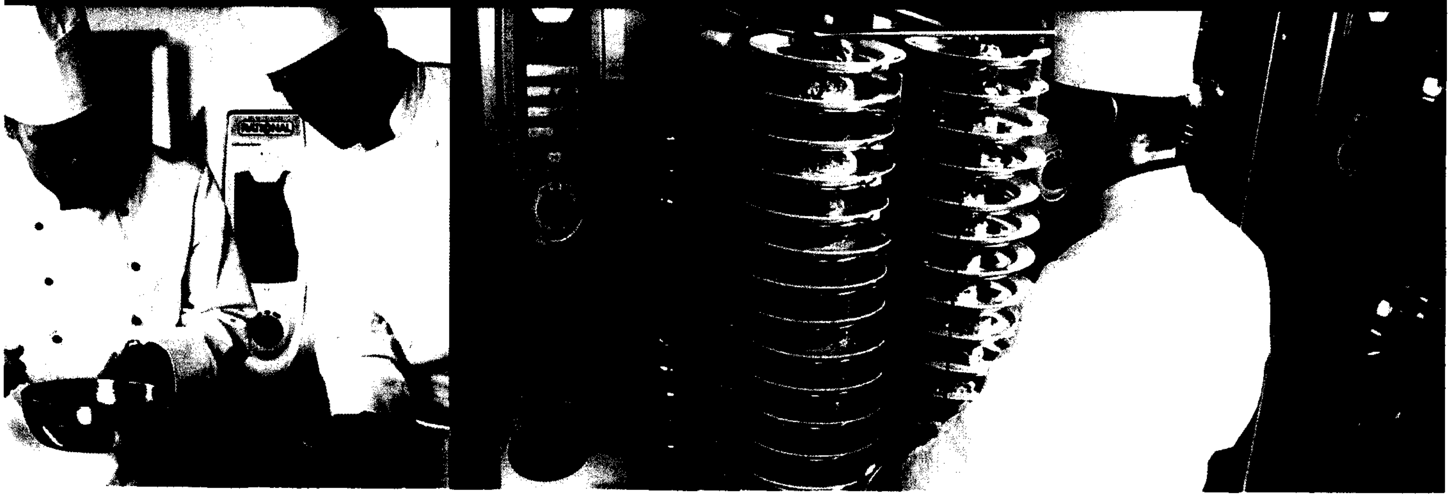



FRIMA



...and the kitchen is complete

Yet again RATIONAL has revolutionised the world of cooking: the VarioCooking Center from FRIMA completes the range of products for today's professional kitchens, barely a year after the launch of the first SelfCooking Center.



The SelfCooking Center®: a class of its own

Within a year of its launch, the SelfCooking Center® had firmly established itself as the new technological global standard in 2005. Over 20,000 SelfCooking Center® units were sold and installed around the world, comfortably beating the long-standing record held by their predecessor, the ClimaPlus Combi. No other appliance came anywhere close in terms of the number of units sold. Undoubted testimony to the extraordinarily high level of acceptance with our customers worldwide.

The SelfCooking Center® technology is a radical departure from the emphasis on more and more overt technology, complicated operating concepts, cumbersome manual programming, time-consuming user training, constant personal monitoring of the cooking process, not to mention many of the routine chores required previously.

The SelfCooking Center® adopts today's basic strategic principle that technology serves people and not the other way round. Survey results from SelfCooking Center® owners reflect just how satisfied and enthusiastic customers actually are.

CombiMaster®: the economic alternative

In parallel with the launch of the SelfCooking Center® we are pursuing a successful two-pronged global strategy with the CombiMaster®. The CombiMaster® is a sophisticated traditional combi-steamer at an outstandingly low price. Around 10,000 CombiMaster® units were sold in 2005 alone, illustrating just how consistently the product has beaten off the existing competition.

"SelfCooking Center technology serves people and not the other way round."

International awards confirm the worldwide technology leadership

A raft of awards bears impressive testimony to RATIONAL AG's expertise and innovation.

At the start of the year the RATIONAL SelfCooking Center® was awarded the 'Produit nouveau de l'année' in Canada for outstanding, innovative and groundbreaking product and problem solutions in the field of professional kitchen technology. In May 2005 we received the Kitchen Innovations Award 2005 at the New York Restaurant Hotel-Motel Show from the National Restaurant Association in the US. The award was for the outstanding innovation of the SelfCooking Center®.

We are particularly proud to have been awarded the 'Dr.-Georg-Triebe-Prize' for Innovation 2005 by the German Association of Planning Specialists (VdF), which we received for outstanding innovation for the SelfCooking Center® in September 2005.

The second step towards the kitchen of the future

The vision was to invent a technology that in one fell swoop would do away with the range of thermal appliances still required to complement the SelfCooking Center®. At the same time this new technology had to dovetail perfectly with the SelfCooking Center®.

The VarioCooking Center® – the perfect complementary product

Our French subsidiary FRIMA developed an entirely new, revolutionary, complementary product in the guise of the VarioCooking Center® which it successfully launched in selected European test markets from May 2005 onwards.

Whereas the SelfCooking Center® is used for cooking all foods for which the ideal cooking process is the transfer of heat by hot, fast-flowing gases, the new VarioCooking Center® can be used to cook all the other products found in a professional kitchen, i.e. those that are cooked in liquid or in direct contact with heat. These include products such as milk dishes, noodles, blancmange, goulash and much more. The new groundbreaking design also underscores the innovative unique position of this new technology.

The VarioCooking Center® is highly versatile. Whether it's boiling, roasting, grilling, deep-frying or pressure cooking, whether food is being cooked individually or together, with up to three cooking processes simultaneously. Conventional cooking appliances, along with pots, pans and casseroles, have virtually been wiped out overnight. Gone are the days of going out to buy them, finding the space to store them or cleaning them afterwards.

Nothing burns and 50% faster

The patented heating technology in the VarioCooking Center® provides far quicker heat transfer with a level of power, precision and controllability not seen before. Cooking times can be slashed on average by 50 percent. Perfectly prepared food with no burning, sticking or overcooking, and no complicated cleaning either. Cooking times can be halved again using the pressure cooking option.

The chef no longer needs to wait around for long periods of time and can forget about many of the monotonous routine chores. Skill, experience and creativity are firmly back on the menu, with the VarioCooking Center® providing 'cooking pure', the very reason a chef becomes a chef in the first place.

"With the VarioCooking Center® we have invented a new worldwide market".

VarioCooking Control® – the intelligence that assists the chef

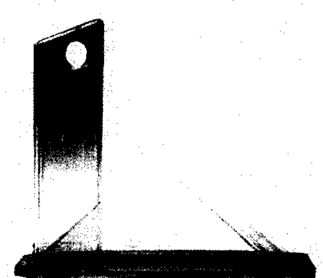
VarioCooking Control® is the built-in intelligence in the VarioCooking Center®. Conventional settings such as temperature, time or complicated programming are no longer necessary. Gone too are many of the routine manual chores such as filling or emptying, as well as monitoring the cooking processes.
Simply select the food to be cooked and that's it. The chef can choose between large roasts, flash-fried dishes, egg dishes, fish, milk products or side dishes. VarioCooking Control® monitors the cooking process fully automatically and advises the chef when assistance is required, e.g. to turn something over or mix in another ingredient.

VarioCooking Center® – the custom solution

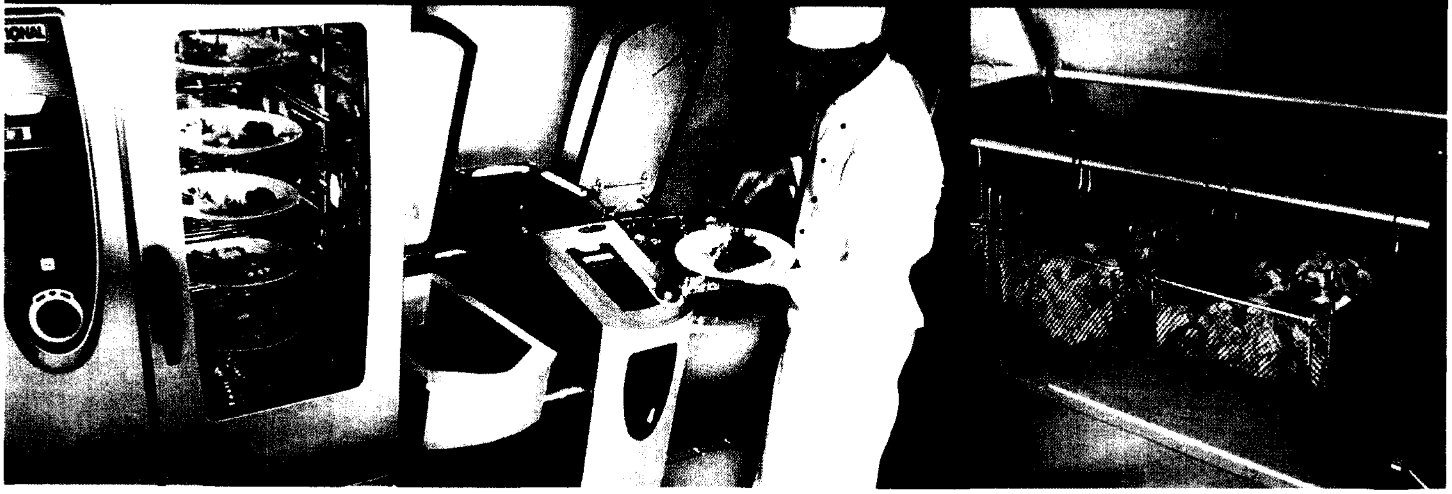
There is the right VarioCooking Center® for every customer, i.e. from the restaurant with 30 up to 50 meals a day through to the largest kitchen used by institutional customers.
The VarioCooking Center® offers all these benefits at an outstandingly low price, placing it virtually in a class of its own. On average the appliance will pay for itself within just 4 to 12 months.

VarioCooking Center® – award for technology leadership

A few weeks after the launch of the new VarioCooking Center® in the selected test markets the enthusiasm from distributors, designers and end customers was overwhelming. As early as September 2005 the VarioCooking Center® received the 'Dr.-Georg-Triebe-Prize' for Innovation 2005 from the German Association of Planning Specialists (VdF) for outstanding system innovation.



'Dr.-Georg-Triebe-Prize' for Innovation



– and the kitchen is complete

Optimum customer benefits arise by combining the VarioCooking Center® and the SelfCooking Center® to create an integral kitchen concept. This level of integration provides a complete, efficient kitchen that is more flexible than ever before. And what's more, for the first time a thermal kitchen used to prepare hundreds of meals can be set up in an area of little more than two square metres, with no need for complicated fittings or installations.

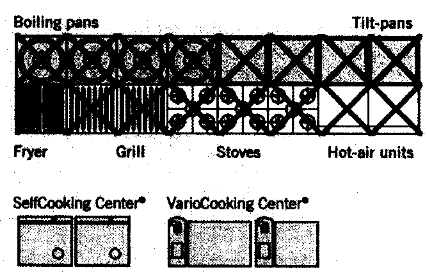
Couldn't be simpler

The standard operating concept for both technologies makes operation simply child's play. No need for time-consuming user training. Even temporary staff can use the equipment straightaway. All functions are used fully automatically and in best way. For the customer this guarantees highest benefit from his investment at any time.

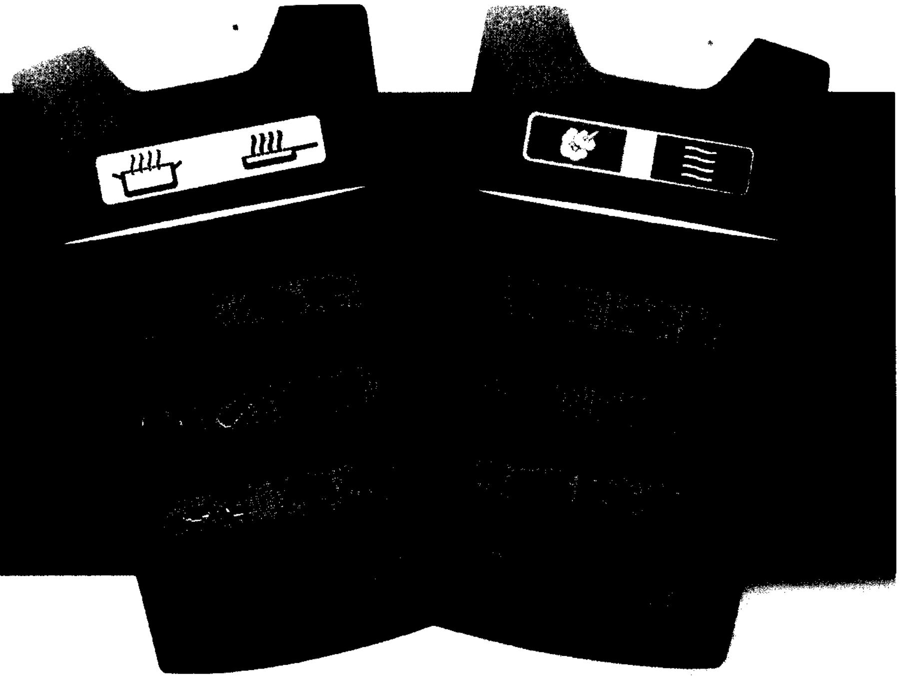
More space for your customers

Until now:
Kitchen block containing convential kitchen units for 1,200 meals a day occupies a floorspace of 105 m².

By now:
kitchen block for 1,200 meals a day occupies a floorspace of 50 m².



"All-in-2
and the kitchen
is complete.
More space for
the guests."



Boundless and flexible

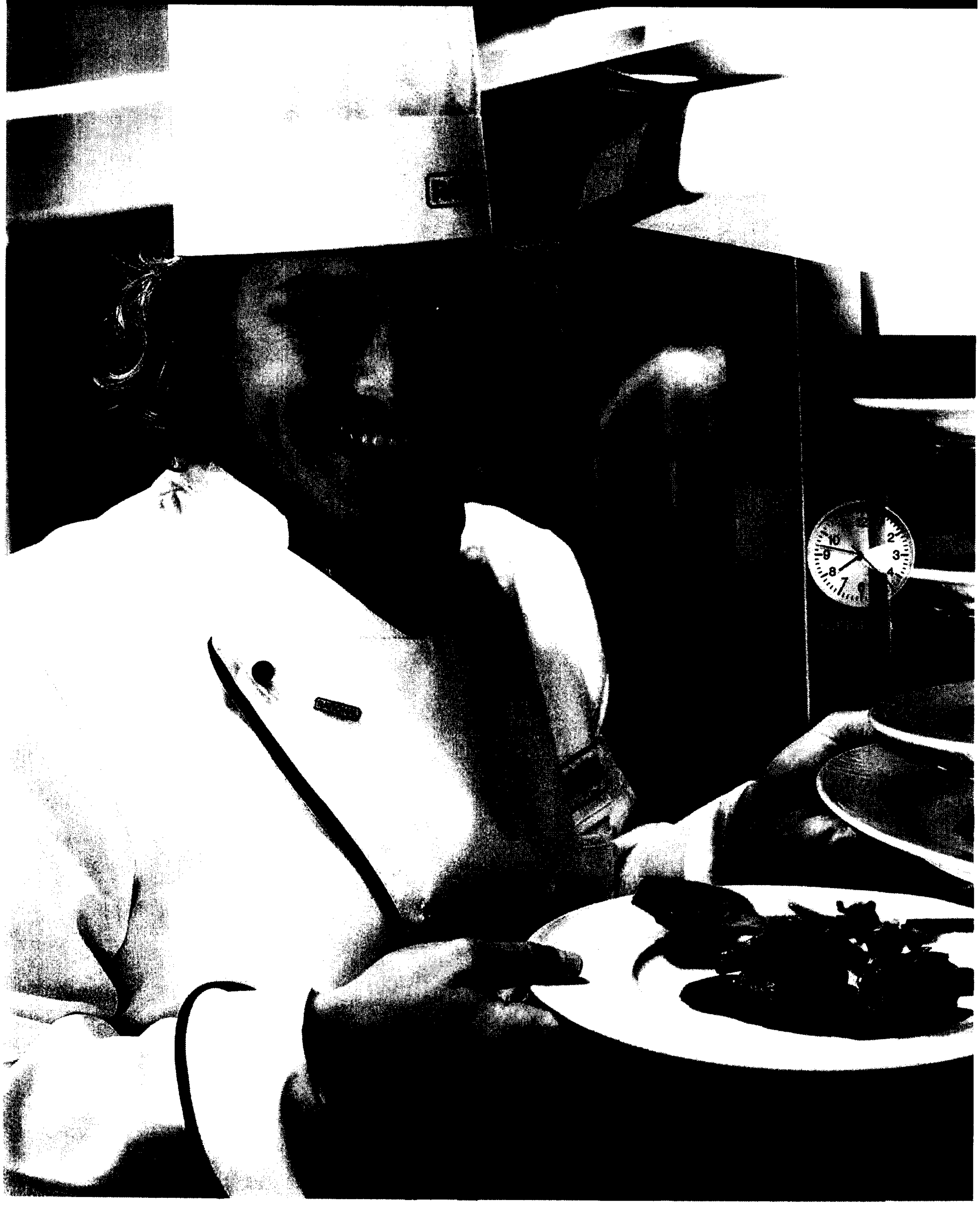
You can produce soups, sauces, stews, curries, deep-fried products, blancmange or even crêpes in the VarioCooking Center®. Add a SelfCooking Center® and you've got cakes, pastries, grilled chicken, duck, rice or even gratins.

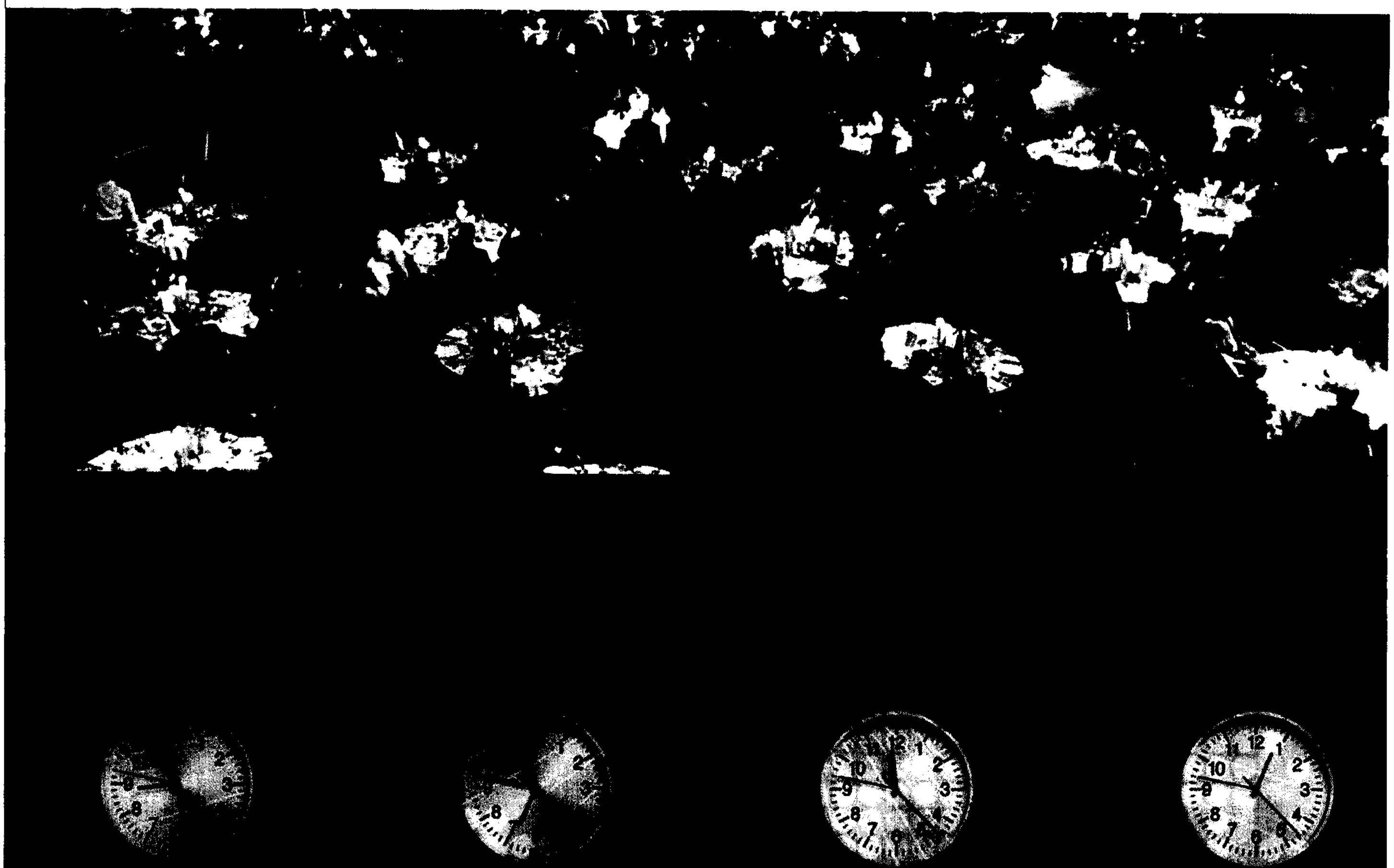
Numerous disparate products such as pot roast, roast beef, steaks, fish, vegetables and crème caramel can be perfectly prepared in either of the two cooking appliances and, if necessary, at the same time. So you've always got sufficient capacity whatever the production requirements in the kitchen.

The individual elements of the All-in-2 are integrated seamlessly and therefore guarantee optimum productivity, reliability and quality, which can be produced time and again, simply and quickly.

Two-fold world market potential

Despite our past successes, the untapped world market potential for the SelfCooking Center® remains around 2 million kitchens or 80 percent. The new VarioCooking Center® technology also exactly covers the same target group. So the untapped world market potential for this technology alone is 2.5 million kitchens or practically 100 percent again.





RATIONAL – customers are delighted

"The Vineyard" in Newbury, Berkshire, UK

SelfCooking Center® and star quality

The Vineyard is a 5-star hotel in Newbury, Berkshire, UK. It has built up a strong reputation for the restaurant's top-class food, which has received numerous awards. In addition to numerous national and international awards, the restaurant also helds a Michelin star since January 2000.

Star quality with RATIONAL

John Campbell, the executive chef at the Vineyard, is well known for his innovative, creative menus with their unusual yet carefully balanced combination of flavours. He combines traditional cooking methods with state-of-the-art, professional kitchen technology. He makes no compromises when it comes to kitchen equipment and has been using RATIONAL for years.

He is full of praise for the superb level of reliability and consistency of the final results. "The SelfCooking Center® allows us to regularly reproduce the Michelin-star quality of the large number of à la carte menus without any of the stress", says John Campbell. "The outstanding quality of the food can be delivered while reducing costs at the same time. And all of which, of course only in conjunction with clever management, ultimately also improves the bottom line."

Perfectly cooked thanks to SelfCooking Control®

John Campbell is a passionate proponent of slow-cooking. "Say we have a piece of centre cut fillet we want to prepare medium-rare. To get it medium-rare right in the middle, it's seared off quickly on the outside in the pan. But what you end up with is only a third of the steak medium-rare.

EXHIBIT C

"The SelfCooking Center® allows us to deliver Michelin-star quality while reducing cost at the same time."

JOHN CAMPBELL

The rest is a mix of medium-well and well done, not to mention the shrinkage during the frying process", says John Campbell. "It's a different story with the SelfCooking Center® with its precise temperature and humidity settings. SelfCooking Control® monitors and precisely adjusts the cooking process so that we end up with a uniformly cooked, succulent pink fillet; and do so with a significant reduction in wastage during the frying process."

Flexibility in a minimum of space

At the Vineyard the RATIONAL SelfCooking Center® is used as a Combi-Duo, with one unit on top of the other. 'We steam in the top unit while we roast in the lower SelfCooking Center®. Once the top unit is cleared, we can switch it over to baking and prepare the next course in the lower unit. Thanks to the Combi-Duo we are twice as flexible without requiring any extra space. This is ideal for the à la carte kitchen. We can prepare two courses at the same time without having to be in two places at once", enthuses John Campbell. And he is convinced RATIONAL will continue to revolutionise the professional kitchen in future.

RESTAURANT · SUITES · SPA

★★★★★

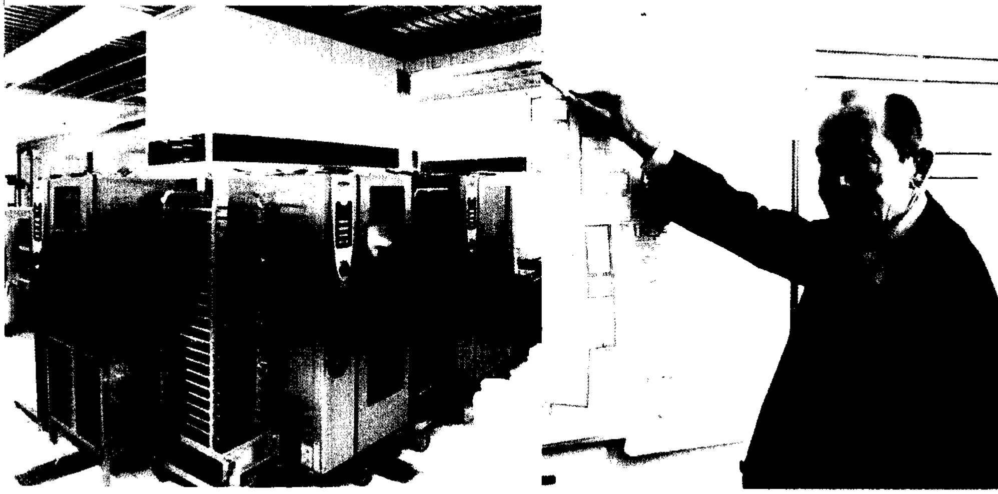
SelfCooking Center® – the right decision

The main kitchen at Krefeld hospital is one of the leading hospital kitchens in Germany. Every day around 10,000 meals are delivered to 55 wards in 10 different buildings.

The kitchen team only uses fresh produce. It's a huge undertaking that is only possible thanks to state-of-the-art kitchen technology.
As soon as plans for the new building to house the hospital kitchen were announced, Dieter Gemmecke, managing director of Klinik-Küchen-Dienste GmbH and his team set themselves the goal of utilising the most innovative, state-of-the-art products and systems in all areas of the new kitchen so they could work as effectively as possible well into the future.

RATIONAL setting the standard

"After over 20 years of working successfully with RATIONAL and having looked long and hard at what the competition had to offer, the decision to go for the SelfCooking Center® was an easy one. And whether it's ease of use, food quality, processing or the professionalism of staff, RATIONAL is still setting the standard in professional kitchen technology", says Dieter Gemmecke.
Seven RATIONAL SelfCooking Center® units now form the nucleus of the ultra-modern kitchen. New daily menus including a high/low-fibre option, vegetarian line, choice of meal and therapeutic diets ensure the units are fully utilized every day.



"Higher quality combined with lower costs, something you don´t find that often."

DIETER GEMMECKE

Food quality as highlight of the day

Knowing full well that breakfast, lunch and dinner are the highlights of the day for many patients, chef Eugen Hütter is delighted with the massive improvement in food quality. "Particularly with light diets and dietary food it is hugely important the meals have the right consistency. Regardless of whether it's roasts, vegetables, fish or poultry, everything is done just perfectly. All the meat dishes are beautifully succulent and tender and the vegetables retain their nutrients and their natural look", says Eugen Hütter. This view is also confirmed by a survey of 2000 patients with 600 persons rating the hospital food as 'Very good' and 1200 persons as 'Good'. "If 90 percent of our patients praise our food", chef Eugen Hütter cannot hide his satisfaction, "that's a fantastic compliment for our kitchen team, and for RATIONAL." The age-old cliché of poor hospital food is totally out of place in Krefeld thanks to state-of-the-art technology and the outstanding commitment of all those involved.

Simple to use – high quality – low costs

The issue of ease of use is one of the major strengths of the new generation of RATIONAL appliances. "Everyone here in the kitchen knows what they need to do because using the SelfCooking Center® is perfectly simple. Thanks to the self-explanatory operating panel it's no problem even for untrained staff", says Dieter Gemmecke.

As with any new investment, acquisition costs as well as running costs had to be considered when opting for the SelfCooking Center®. "With the new SelfCooking Center® our costs have been reduced further, labour costs in particular have been cut considerably. We have undoubtedly found the best possible solution that will stand us in good stead for years. Higher quality combined with lower costs, something you don't find that often!", is how Dieter Gemmecke sums it up.

Klinikum Krefeld
Akademisches Lehrkrankenhaus
der Universität Düsseldorf

North Memorial Medical Center Rob[illegible] Minnesota, USA

SelfCooking Center® – for healthy cooking

The North Memorial Medical Center in Robbinsdale is one of the largest and best hospitals in Minnesota. Around 3500 meals are prepared for patients and employees every day. When Nancy Darbut, Director Food & Nutrition Services, joined North Memorial two years ago, her first duty and challenge was to completely revamp the kitchens.

The ham was the talk of the evening

The first major test for the RATIONAL SelfCooking Center® was a large employee appreciation banquet. "We prepared a buffet for 3000 guests, and the feedback from the guests was stunning. The ham was cooked fully automatically overnight in the SelfCooking Center®. The quality and taste of the ham were the talk of the evening. I've never heard so many enthusiastic comments about the quality of the food in my life", raves Nancy Darbut.

Top-quality food couldn't be easier

The simple, self-explanatory use of the SelfCooking Center® has now become routine for all the kitchen staff. For the Operations Manager, Wally Bungert, and his team it is incredible how simple it is to cook chicken filets in the SelfCooking Center®. "In the past, cooking chicken filets was a nightmare. We constantly had to monitor and turn the pans. Even so, bits would keep burning and then had to be thrown away", says Wally Bungert. Times have changed with the SelfCooking Center®. "We achieve excellent quality and consistency at the push of a button. You can see and taste the difference! The chicken filet is always crispy and moist."

"The SelfCooking Center® makes kitchen staff happier too", say Wally Bungert, "There's no longer any risk of something going wrong, our staff are proud of the quality of the meals they can offer every day."

"We achieve excellent quality and consistency at the push of a button."

NANCY DARBUT

Healthy cooking particularly important in the hospital

The excellent quality of the food is not the only benefit of the RATIONAL units. The 'health' aspect is particularly important to the hospital. There are no more deep-fat fryers. The patented CombiFry® baskets in the SelfCooking Center® enormously reduce the use of oil. "The hash browns taste great and contain far less fat. That's healthier, and we also save a lot of money on the purchase and disposal of fat", explains Nancy Darbut.

RATIONAL is the technology of the future

After all the positive experiences with the SelfCooking Center® it is hardly surprising that Nancy Darbut is absolutely bowled over by this new technology. "RATIONAL is playing an important role in our future plans. We will take a closer look at the opportunities for HACCP documentation in the SelfCooking Center® and we will certainly use the 'Finishing® à la Carte' function even more for room service. For us there's no better way to cook than in a SelfCooking Center®!"

North Memorial
Health Care


Paris: "Culture Bière"

Unlimited variety on smallest footprint

At the start of July 2005 Heineken opened its first Culture Bière on the Champs Elysées in homage to the culture of beer. The innovative concept that combines boutique, gallery, bar, lounge and restaurants in the same space aims to be a meeting place where anyone can come. Everything has been thought of, down to the painstaking decoration, the right lighting, the choice of materials and fixtures and fittings, the mood music – all helping create a good atmosphere.

The concept - stylish, good and value for money

Guests can choose from three original concepts: the 'Grignotage' (savoury or sweet nibbles to accompany the beer), the 'Menu en caissette' (menu in a box) or the 'Carte Dégustation' (taster menu). The menu includes a suggested beer with the right flavour for every dish. Take for example the brioche with goat's milk fromage frais that goes perfectly with the Edelweiss, a pale beer from Austria with its fruity, full flavours. The 'Grignotage' costs nine euros and at that price you'd be hard pushed to find anything cheaper on the Champs Elysées!

800 meals cooked in the minimum of space

Heineken has selected efficient, versatile appliances to reduce kitchen space as far as possible, hardly surprising given the cost of real estate space in Paris. The food is prepared in the cellar where just 20 square metres has been set aside for the preparation area. Given these restrictions, plus the variety on the menu, plus the desire to prepare traditional dishes, the only real option was to use modern, compact, efficient appliances. For Eric Garrigos, chef at the Culture Bière, a cumbersome kitchen block with conventional appliances was out of the question. Eric Garrigos therefore went for the All-in-2-concept from FRIMA so he could provide the food his customers want.

"The SelfCooking Center® automatically cleans itself! It's something the kitchen team just loves!"

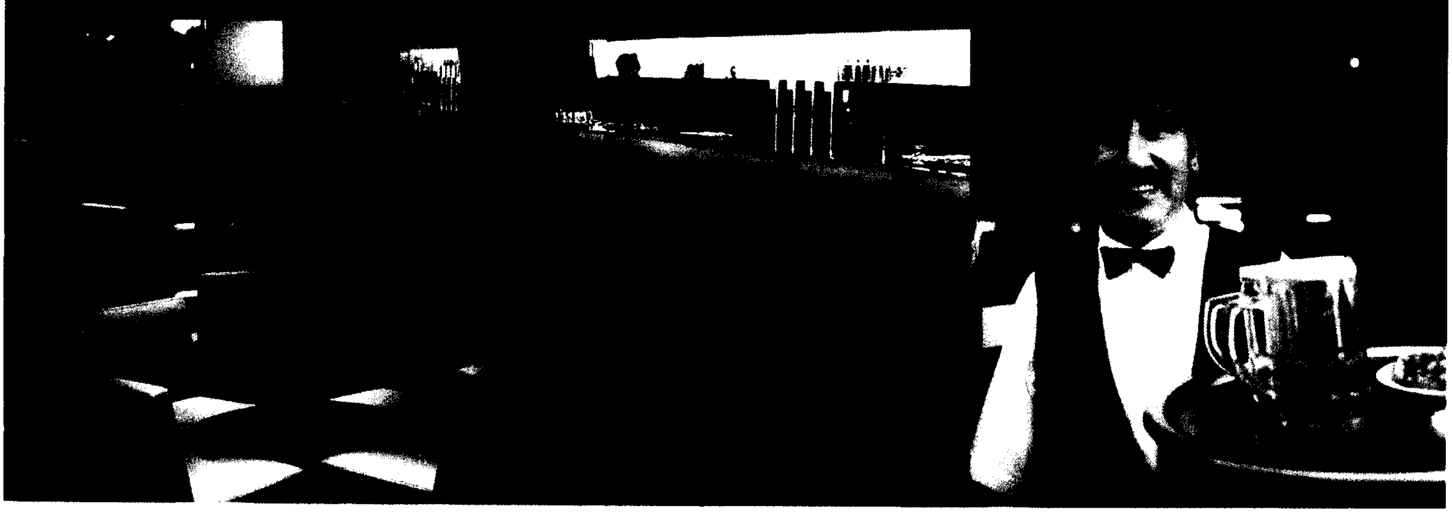
ERIC GARRIGOS

Flash-fried dishes, fish, foil-baked dishes, vegetables and pastries are prepared in the SelfCooking Center®. The VarioCooking Center® is used for cooking in the wok, on the griddle, rice, noodles, sauces and ragouts. A combination of two table-top SelfCooking Center® units, one on top of the other, is used for the finishing and supplements the equipment while taking up minimal space.

Compact, ergonomic, simple, boundless

According to Eric Garrigos the advantage of the All-in-2-concept is that it is very compact and ergonomic. "Unlike a central kitchen block where my team is running round frantically, the All-in-2 means you can keep an eye on everything and everything's just where you need it.

The use of standardised operating panels for both units ensures operation is child's play. Ease of use apart, the guaranteed excellent, reproducible cooking results are one of the major advantages of the All-in-2-technology."



90 meals in five minutes

The SelfCooking Center® units are transformed into finishing specialists for service. The dishes are finished off on the plate in just five to six minutes. The service can be sent off immediately without the guests having to wait. The results are excellent thanks to the precise humidity control. Eric remembers a banquet for 90 with a choice of two menus.
"The 90 dishes were ready in five minutes! And we saved even more time because the SelfCooking Center® automatically cleans itself. Something my kitchen team just loves!", says Eric Garrigos.

Incredibly powerful – a true sensation

The VarioCooking Center® is a true sensation for Eric Garrigos. "It's incredibly powerful. You can increase or decrease the temperature virtually instantly! I can use it as a wok for my prawn special with ginger and cook 12 kilos of deep-frozen prawns in just seven minutes! The prawns are seared straightaway, they lose no water and what you're left with is prawns that are crispy on the outside and moist on the inside."
"For defrosting I press the VarioDose button, and the VarioCooking Center® fills up with the right amount of water. It works like a treat without having to keep an eye on it! If I prepare noodles or my Thai rice, I use the AutoLift system. I only need to set the required cooking time and the VarioCooking Center® does the rest. It fills up automatically with the right amount of water, increases the temperature and raises and lowers the baskets."

"If I had the choice again, I'd go for the All-in-2-technology every time!"

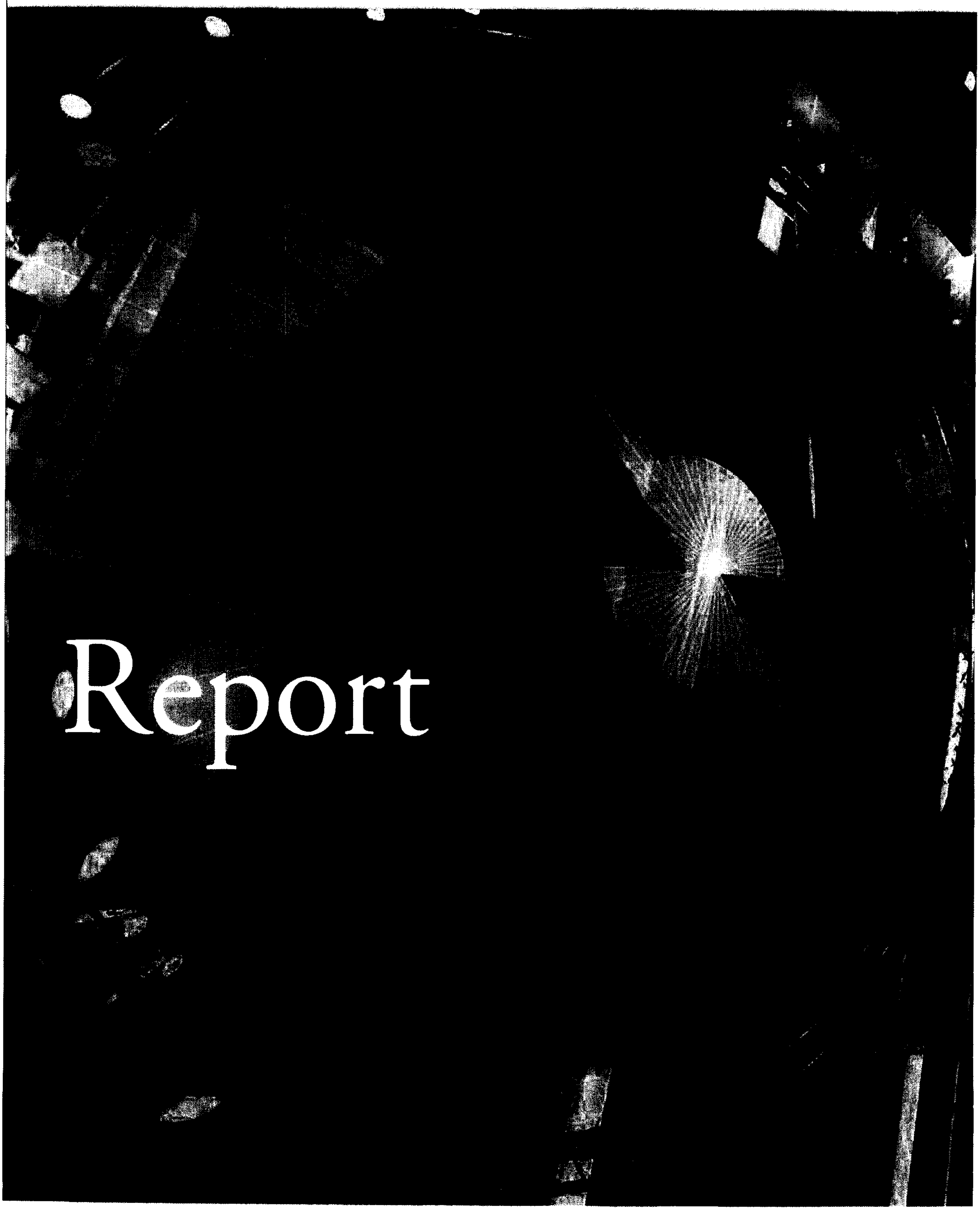
ERIC GARRIGOS

Keep customers with speed and quality

"With the All-in-2 I can save time, work faster as a result and, for instance, give lunchtime customers who only have 40 minutes to spare what they want. This speed means customers just keep coming back. For me the traditional kitchen block is a non-starter now. If I had the choice again, I'd go for the All-in-2-technology every time.

I can go on cooking the popular, traditional dishes yet at the same time benefit from the incredible efficiency of state-of-the-art cooking technology. Progress is an important competitive advantage in our industry!", says Eric Garrigos cheerfully.

Management


Report

Economic Report

Economic climate – growth in world economy slows down

The speed of economic growth, measured in terms of gross domestic products worldwide, is expected to have dropped from 4.8 percent to 4.1 percent in 2005.

In 2005, the United States again lived up to its role of powerhouse of the global economy. Despite rising interest rates introduced to combat rising inflation, and the enormous damage it suffered as a result of hurricanes, the American economy is still set to grow 3.6 percent in 2005.

Japan posted growth of around 2 percent in 2005. This was driven largely by rising domestic demand. Before that, Japan was reaping the benefits of dynamic exports, but China has now taken over the role of leading exporter in Asia.

Indeed, China is still the outright winner in the growth stakes among the Asian economies, with annual growth rates of between 8 and 9 percent. Exports are still the main driver of its economy, but consumer spending is fast catching it up in that respect. Last but not least, Chinas accession to the WTO has also improved its economic prospects.

With a growth rate in 2005 of 1.4 percent and falling, Europe is going through a turbulent period at present. The Euro Zone's main weakness is its inability to withstand shocks, and factors such as sustained rises in the price of crude oil and the recent substantial falls in the value of the US dollar pose serious risks for its recovery.

Germany's economy is growing at snail's pace: for years now, it has been well below world levels, and will probably show no more than 1.1 percent growth in 2005 (previous year: 1.6 percent). The main reason for this negative development is the lack of any sufficiently radical reforms – in the form of tax cuts and cuts in social security benefits, for example, but also in the form of measures to make the employment market more flexible.

Slight revival in the professional kitchen sector

In 2005, sales in Germany's professional kitchen sector grew by just on 3 percent, but while exports grew by more than 4 percent, domestic sales were virtually stagnant. The mass catering equipment and stainless steel processing divisions made losses of 7 percent and 6 percent respectively. The situation for conventional engineering is still difficult. The hot-air steamers division, by contrast, posted gains of 9 percent, largely due to exports.

RATIONAL once again did justice to its special position within the sector, and in 2005 posted above-average growth in both its domestic and export markets.

World market share rises to 52 %

In 2005, RATIONAL increased its world market share yet again, from 51 to 52 percent. The critical success factors here were RATIONAL's new and superior product technology, the fact that it continued to concentrate its resources in countries with the greatest potential, and its systematic implementation of the RATIONAL sales and marketing process, leading to ever more efficient customer acquisition, as well as the creation of customer loyalty.

RATIONAL corporate philosophy

Never "Me too" – expertise through specialisation

RATIONAL's success is based on our shared corporate principles, the simple corporate philosophy embraced by all our international subsidiaries. RATIONAL is an out-and-out specialist that focuses on a single target group and its basic needs. That target group is people in professional kitchens around the world; their basic needs relate to the thermal preparation of food.

Maximum customer benefits as our overriding corporate goal

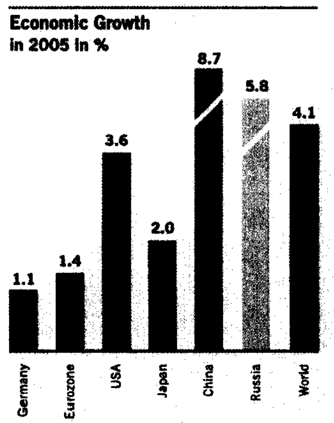
Our overriding corporate goal is and always has been to provide maximum benefits for customers. Over the years, our consistent specialisation and concentration of all thought and action have enabled us continuously to intensify our links with our customers, to better understand their wishes and needs. We have practically become part of their world. This enviable position means we are better placed than anybody else to solve their problems, as we improve their working environment and their successes too, day in and day out.

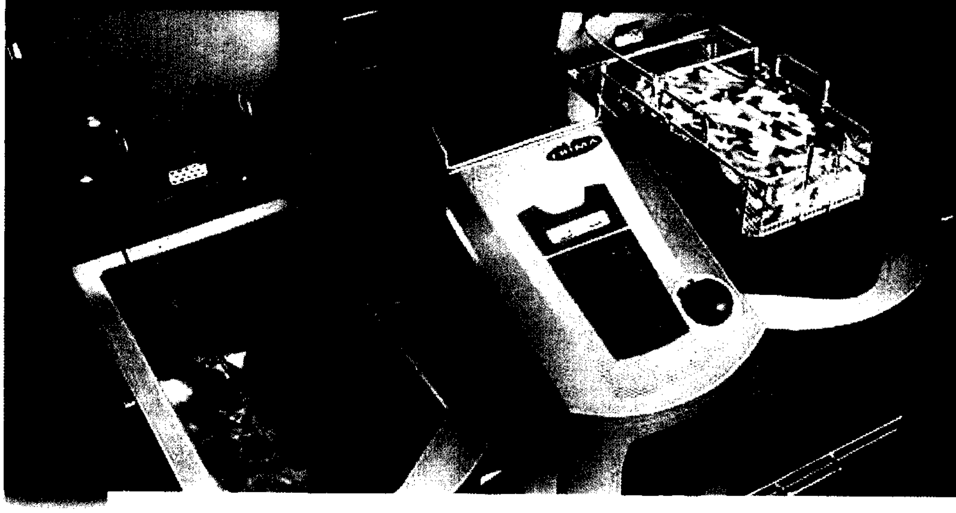
RATIONAL: the chefs' company

RATIONAL does not see itself primarily as an appliance manufacturer but as an innovative problem-solver. Our research and development process is geared to our customers' operational world and the corresponding scientific environment. Physicists carry out basic research, chefs and nutritionists focus on application research, while design engineers are involved in product development.

Product leadership involves setting the agenda

RATIONAL has devised groundbreaking solutions and innovations by concentrating all its resources on a single target group and leveraging the company's overall strategic focus on the application side. The results of this approach can be seen in terms of sustained product leadership and increasing customer benefits all the time. And meanwhile, the RATIONAL brand has become an increasingly more appealing, compelling proposition.





"With this combination of SelfCooking Center® and VarioCooking Center®, the kitchen is now complete."

The SelfCooking Center® marks the start of a new era

At RATIONAL, product leadership means: "All appliances always feature the most up-to-date technology that the market has to offer and are made to the highest quality standards." It is a promise we always keep.

RATIONAL's invention of the world's first SelfCooking Center® in 2004 represented a further quantum leap in technology. And within the first year of its launch, RATIONAL succeeded in firmly establishing this unique technology as a new world standard.

For RATIONAL, the SelfCooking Center® is a radical departure from the approach of continually striving for ever more visible technology, complicated controls, expensive training courses and constant monitoring of cooking processes – i.e. from much of what has had to become routine. Chefs are under less stress and so have more time for the essentials, which means time to restore quality and, above all, creativity, to their rightful place.

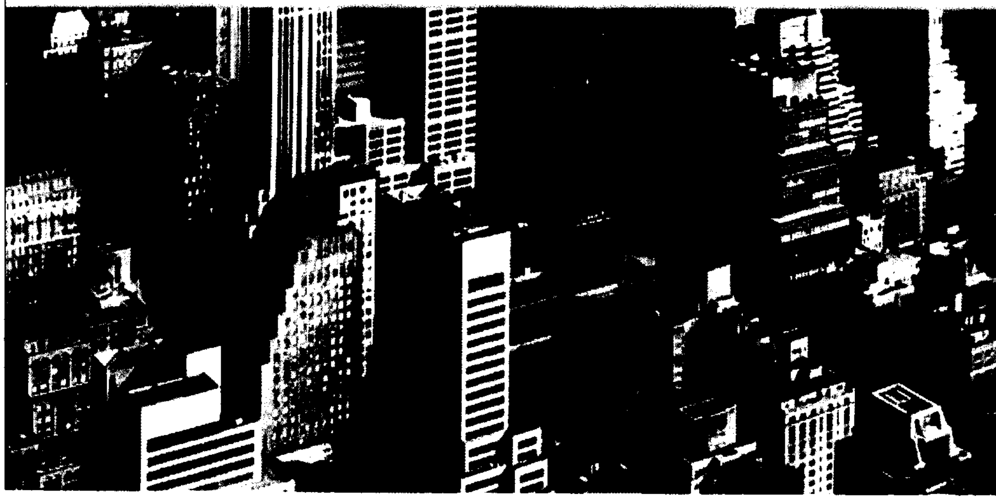
Complementary technology creates a completely new world market

In parallel with the SelfCooking Center®, our French subsidiary FRIMA developed a totally innovative and revolutionary complementary product, the VarioCooking Center®, which it successfully launched in selected European test markets during May 2005. Whereas the SelfCooking Center® is used for cooking all foods for which the ideal cooking process is the transfer of heat by hot, fast-flowing air, the new VarioCooking Center® can be used to cook all the other products found in a professional kitchen, i.e. those that are cooked in liquid or in direct contact with heat.

So while the SelfCooking Center® has already replaced 40 to 50 percent of all traditional kitchen appliances, the VarioCooking Center® replaces the other half. With this combination of just two appliances, the kitchen is now complete.

Huge global sales potential

According to market studies conducted by RATIONAL, RATIONAL technology has sales potential in around 2.5 million kitchens worldwide, all of which still need one or even more appliances.



Despite past successes, the SelfCooking Center® still has global market potential of 80 percent – or around 2 million kitchens. And the new complementary VarioCooking Center® technology, which is used in a similarly varied range of appliances, appeals to exactly the same target group. So the potential global market for this new technology is also around 2.5 million kitchens.

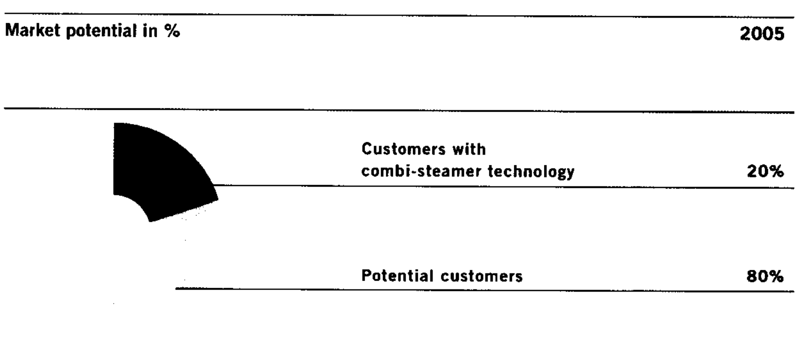
11 % growth in sales

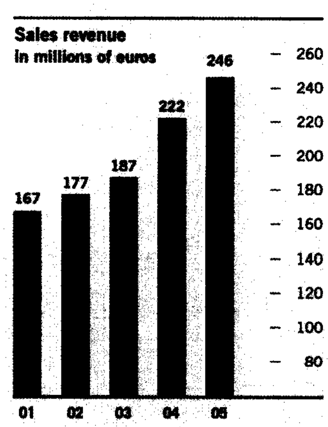
RATIONAL posted sales of € 246.4 million in 2005 (previous year: € 221.8 million), an increase of € 24.6 million, representing growth of 11 percent. This even largely compensated for the non-recurrent basis effect, which last year was the result of "pipeline filling" by our export partners when the SelfCooking Center® was launched.

International subsidiaries drive growth

Posting 22 percent growth this year, our international subsidiaries contributed the lion's share to overall growth. This vindicates in no uncertain terms our global strategy of applying our own, highly effective organisation to concentrate on the markets with the greatest potential.

RATIONAL's own sales companies already operate in many of the most important sales markets. In the year under review, we formed new sales subsidiaries in Austria, Poland, France and Switzerland.





The regions

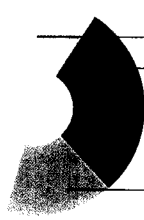
Germany passes the 5,000-units mark

Germany is already a mature market after around 30 years of successful marketing, and the business has been increasingly relying on the demand for replacements. Overall demand has been relatively weak, due to the continuing constraints imposed on government spending, coupled with an only slightly increased inclination to invest within the hotel and catering sectors.

However, the competitive superiority of the new SelfCooking Center® technology, combined with highly efficient sales and marketing processes, ensured that RATIONAL Germany sold over 5,200 appliances in 2005. This represents a 12 percent increase in sales, from € 35.6 million to € 40.0 million, and further underlines our enormous potential for growth in the other markets of the world.

Europe posts greatest growth

In 2005, Europe's contribution to the group's growth was above average. Sales revenue in Europe (excluding Germany) rose by 16 percent, from € 118.2 million to € 137.6 million. France, Russia, Poland, Scandinavia, Italy and Spain were particularly successful.



Sales by distribution channel in %	2005	2004
International subsidiaries	55%	50%
OEM sales	10%	11%
Sales partners	19%	23%
Domestic sales	16%	16%

Subsidiary FRIMA posts record growth

Our French subsidiary, FRIMA S.A., was the outright winner within the RATIONAL Group in 2005. Thanks to the RATIONAL SelfCooking Center® and the recently launched FRIMA VarioCooking Center®, its sales revenue grew by an outstanding 20 percent.
The rise in gross earnings not only completely financed the development, start-up and market launch of the VarioCooking Center®, all within the first year of its launch, but allowed FRIMA to post a net profit.

North America drives growth again

North America represents the most important and highest potential market for RATIONAL technology: it is where the SelfCooking Center®, with its simple controls, expanded functionality, low space requirement and optimal combination options, meets every customer requirement in it's best way.
In North America, where the market is still relatively immature, the company is concentrating on the markets of the highest potential of the American states. This will assure more efficient market penetration and with it, our chances of success in the short and medium term.
In the year under review, sales revenue of our sales subsidiaries in North America rose by 29 percent. The high market potential here, coupled with the extent of our investment in the strategic expansion of our sales capacity, mean that even higher growth rates can be expected in the future.

Sales revenue by region in %	2005	2004
Europe excluding Germany	56%	54%
Germany	16%	16%
Americas	12%	12%
Asia	12%	14%
Rest of the world	4%	4%

Asia: the market of the future

The sales volume of € 28.1 million generated by Asia in 2005 represents 12 percent of RATIONAL AG's total sales.
RATIONAL technology is already the market leader in Japan. The dynamic emerging economies of China and India, but also of Taiwan, South Korea and the "vacation regions" of South-East Asia, also represent growth markets of the future.
The non-recurrent basis effect of the major order from Kentucky Fried Chicken in 2004, to equip all their existing branches in China with a second appliance, has meant that a negative growth rate was posted for Asia in the year under review.

Net assets, financial position and results of operations

RATIONAL among Germany's top 10 most profitable companies

In the company ranking published by Handelsblatt on August 22, 2005 RATIONAL was awarded 825 points, earning it the qualifier "with exceptional earning power" and a place among the top 10 companies in Germany in terms of earning power. All in all 132 listed companies were analysed, and the average number of points awarded was 485. This exceptional earning power is the direct consequence of continual improvements in productivity and efficiency in all company processes, as well as extraordinary employee skills enterprise-wide.

EBIT-margin of over 27 %

At € 66.9 million, this year's EBIT topped the previous year's figure of € 53.3 million by € 13.6 million, or 25 percent.
The EBIT-margin thus increased from 24.0 percent in 2004 to the new record level of 27.2 percent in 2005.

Cost of sales further reduced

In 2005, the sharp rise in the price of stainless steel, the most important commodity used in production, was more than offset by cost savings and the increased productivity of RATIONAL's production and supply process.
We therefore succeeded in further reducing the cost of sales in relation to sales revenue – thus considerably increasing our gross margin – from 59.3 percent in 2004 to 60.8 percent in 2005.

Investment in additional sales and marketing activities

We also considerably expanded our worldwide dealer network during 2005 and, in line with our strategy of ever greater market penetration, set up sales companies in Austria, Poland, France and Switzerland.

Kitchen consultants are worldwide important, independent opinion formers. In 2005 we developed a completely new kind of internet-based information forum for them. Our aim was to ensure that the kitchen planners had all the technical information they needed, including examples of futuristic planning, in a structured, constantly updated form on a single database. Over 1,500 kitchen designers from 40 countries had registered within a matter of weeks and at present over 400 of them access this new, unique RATIONAL service every day.

In addition to expanding our sales capacities in high potential markets, in 2005 we also focused on increasing our sales efficiency, for better market penetration.

In fiscal 2005 our sales and marketing costs rose by 8 percent, to € 61.4 million (previous year: € 56.9 million).

RATIONAL the technology leader

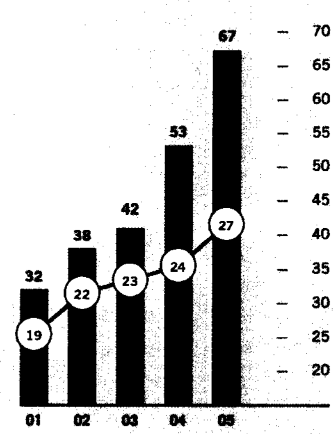
Innovation and technical know-how are absolutely crucial to RATIONAL's success as a company. In recent years we have invested around € 10 million annually specifically in innovative solutions in the area of product and basic technology, increasing our existing technological lead over our competitors year on year.

Once the SelfCooking Center® had been successfully launched in 2004, research and development costs accordingly fell slightly in 2005. However, at € 10.0 million, (previous year: € 10.4 million), or 4.1 percent of sales (previous year: 4.7 percent), they remain extraordinary high for the industry.

Low administration costs thanks to RATIONAL process organisation

The RATIONAL process organisation is characterised by integral, clear, self-contained tasks. Superfluous interfaces have been eliminated. Conventional departments have virtually disappeared. And even with these flat hierarchies, the result is a high level of transparency, even between administrative functions, plus ever greater efficiency.

EBIT in millions of euros
EBIT-margin as a percentage of sales



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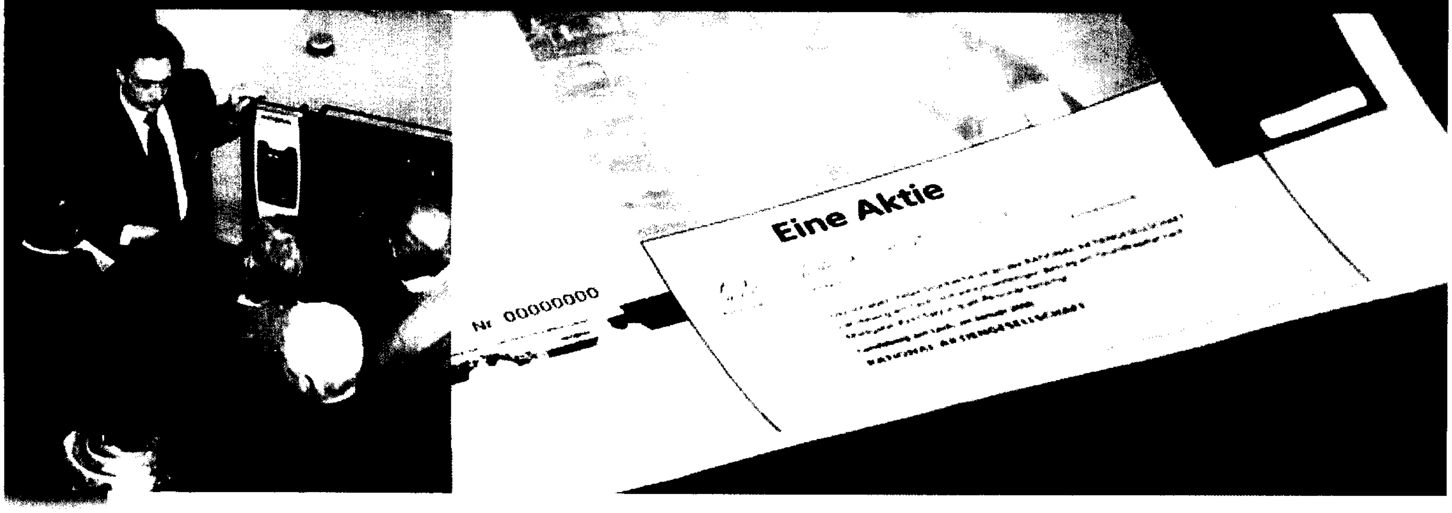


During fiscal 2005, special administration costs as a result of investment in necessary administrative structures in the new sales companies in Austria, Poland, France and Switzerland meant that general administration costs rose by 15 percent, from € 10.2 million in 2004 to € 11.7 million in 2005. As a percentage of sales, however, they are still only 0.1 percent above last year's value (this fiscal: 4.7 percent; previous year: 4.6 percent).

Positive financial results in spite of high special dividend

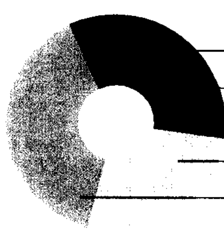
At € 0.3 million, 2005's financial results do not quite match the previous year's figure of € 0.5 million. The reason for this development is the payment of a one-time special dividend of € 56.9 million in 2005.

As well as interest income and expenses, the financial results also include income from investments in RATIONAL's non-consolidated subsidiary MEIKU Vermögensverwaltung GmbH, amounting to € 108 thousand (previous year: € 78 thousand).

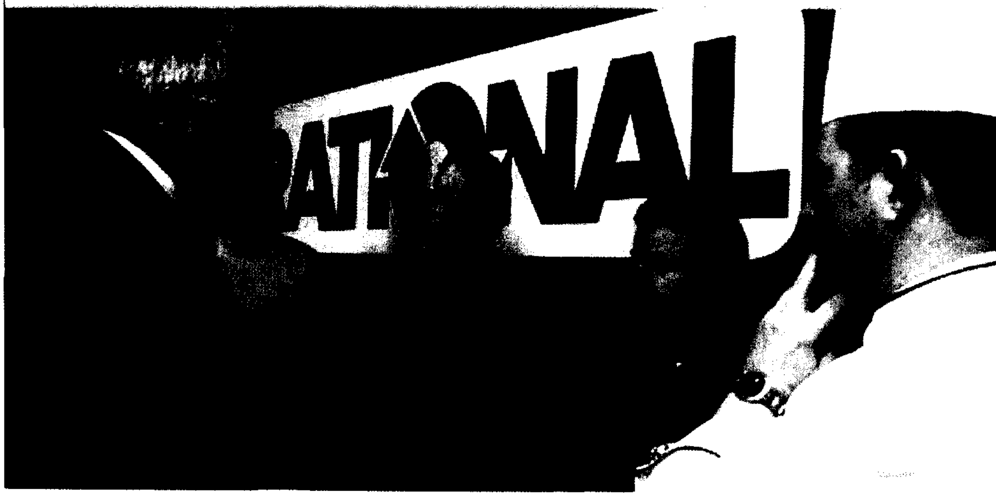
Group earnings up 25 %

In the year under review, group earnings (net annual income) rose to € 42.4 million (previous year: € 33.8 million), or 25 percent. The return on sales after taxes was 17 percent (previous year: 15 percent).

In fiscal 2005, income tax was € 24.8 million (previous year: € 20.0 million). The tax ratio is 37.0 percent, and thus slightly lower than the value for last year (37.2 percent).



Earnings structure 2005 as a percentage of sales	2005	2004
Sales and service	25%	26%
Research and development	4%	5%
Administration and miscellaneous	5%	4%
EBIT	27%	24%
Cost of sales	39%	41%



"We are is in the fortunate position of being able to achieve its growth targets without loan capital and still pay an attractive dividend."

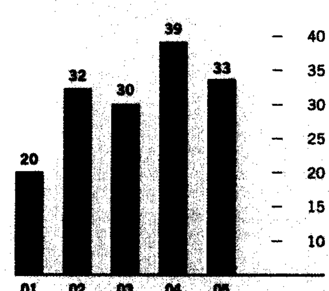
High Cash flow from operations

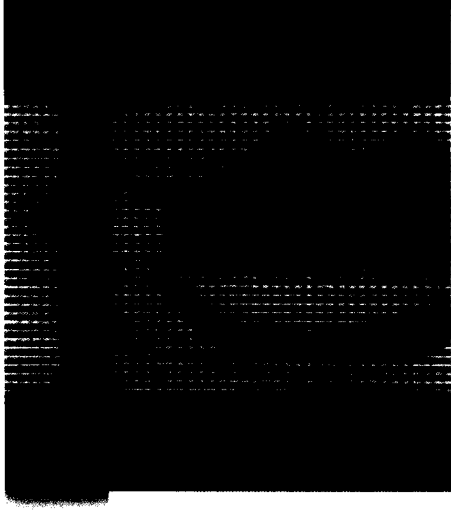
RATIONAL AG's improved earning power, combined with the low capitalisation ratio of production and consequently low figure for working capital, continued to have a positive effect on cash flow in 2005.
Additional tax paid as a result of last year's high profits bring the total tax paid this fiscal year to € 29.9 million – € 13.2 million above the comparison value for the previous year. Because this led to a significantly higher amount being posted for net cash used, the 2005 figure for net cash generated from operating activities of € 32.8 million was somewhat below the previous year's figure of € 39.2 million.

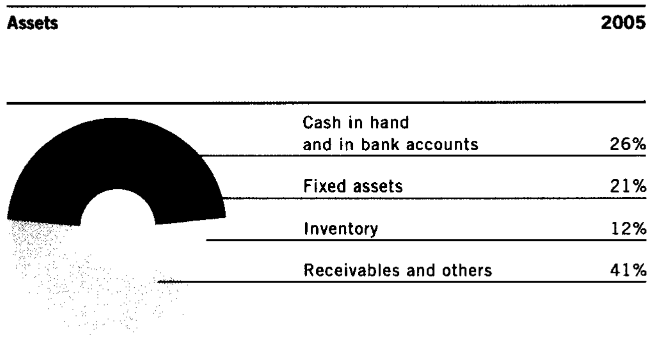
In 2005, net cash used for investing activities was € 3.6 million, down from € 4.6 million the previous year. Total free cash flow amounted to € 29.1 million (previous year: € 34.6 million). Because of its high level of internal financing, the company is in the fortunate position of being able to achieve its growth targets without loan capital and still pay an attractive dividend each year.

Cash flow 2005 in millions of euros	
Cash funds Jan. 1, 2005	44
from operating activities	33
from investing activities	– 4
from financing activities	– 42
from exchange rate changes	1
Cash funds Dec. 31, 2005	32

Cash flow from operating activities
in millions of euros







Solid balance sheet structure – high equity ratio

RATIONAL AG's balance sheet total as at the balance sheet date is € 132.1 million, which is € 14.6 million, or 10 percent, lower year on year. The increase in various assets due to increased business volume was more than offset by the net cash used in the payment of the high dividend.

In the period under review, tangible fixed assets rose slightly, as a result of additions less ordinary depreciation, to € 27.2 million (previous year: € 26.9 million). Intangible assets fell by € 0.3 million, to € 0.7 million.

Because production is order-driven and lead times are short, stocks are generally very low. The value of inventories did rise 13 percent in 2005, to € 16.2 million.

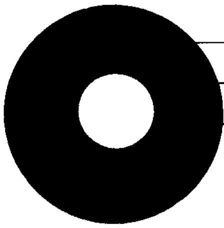
Strict guidelines on payment terms and further improvements in receivables management resulted in an improvement in the average time receivables were outstanding, from 63 days in 2004 to 61 days in 2005. Strong business volume at year end, plus the growing number of subsidiaries, meant that trade receivables as at the balance sheet date increased by € 9.4 million year on year, to € 46.1 million.

Equity capital as at the balance sheet date stands at € 89.9 million. And despite the large dividend paid out in May 2005, the equity ratio is still extremely good, at 68.0 percent (previous year: 70.9 percent).

Because of the low level of risk involved in the business, provisions remain at the relatively low level of € 21.3 million (previous year: € 22.0 million). In addition to provisions for warranty, provisions are primarily for outstanding tax payments and accrued personnel costs.

At € 5.4 million, the amount posted for trade accounts payable is slightly less than posted the previous year (€ 5.8 million). Our excellent liquidity situation and close collaboration with suppliers mean that liabilities are quickly cleared. This enabled us to take advantage of supplier discounts in many cases.

Equity and Liabilities **2005**



Equity	68%
Provisions	16%
Liabilities and others	16%

Targeted investment in infrastructure

In 2005, investment was primarily focused on the production and supply process. A strong surge in sales meant that punching capacities in the components factory had to be increased again. Areas used for dispatch/shipping purposes also had to be enlarged, given the growth anticipated over the next five years. The company also invested in product development and in expanding and modernizing its IT infrastructure. Total investment for the year under review amounted to € 6.0 million (previous year: € 5.7 million), and depreciation totalled € 4.3 million (previous year: € 4.6 million).

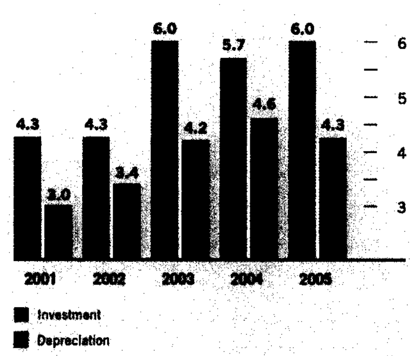
RATIONAL, the value-added share, passes 100-euro-mark for first time

In what was generally a bullish stock market, the RATIONAL value-added share has once again done justice to its special position as one of the jewels in the German Stock Exchange crown over the last 12 months.
The RATIONAL share price broke through the 100-euro-mark for the first time on December 12, 2005. Thanks to a 64 percent increase in the share price to € 112.27 as at December 31, 2005, the shares easily outperformed the exceptionally strong growth already seen in the German stock market's DAX (27 percent), MDAX (36 percent) and SDAX (35 percent) indices.
A large number of analysts expect the RATIONAL share price to go way beyond the 100-euro-mark over the next year and therefore still recommend the share as 'Buy'. This attractive valuation is based on the excellent balance sheet structure, the strong growth in cash flow and the high dividend yield. Other key factors include the unique business model with above-average margins and the company's excellent opportunities for growth.

Executive Board champions investor relations

RATIONAL gives investor relations a very high priority. This is reflected in the fact that the Executive Board is always on hand in person to answer any questions on the company's situation and future developments that shareholders, analysts, fund managers and prospective investors may have.

Investment/Depreciation
in millions of euros



At numerous roadshows in the USA and Europe the company has been presented to an increasing number of new institutional investors. RATIONAL has also taken part in international analysts' conferences in London, Kronberg, Frankfurt and Munich, as well as numerous press interviews attended by representatives from the business and financial press. The confidence in the future successful development of the company along with the associated rise in the share price are ultimately a result of the hard work put into investor relations as well.

Top spot for RATIONAL 2004 Annual Report

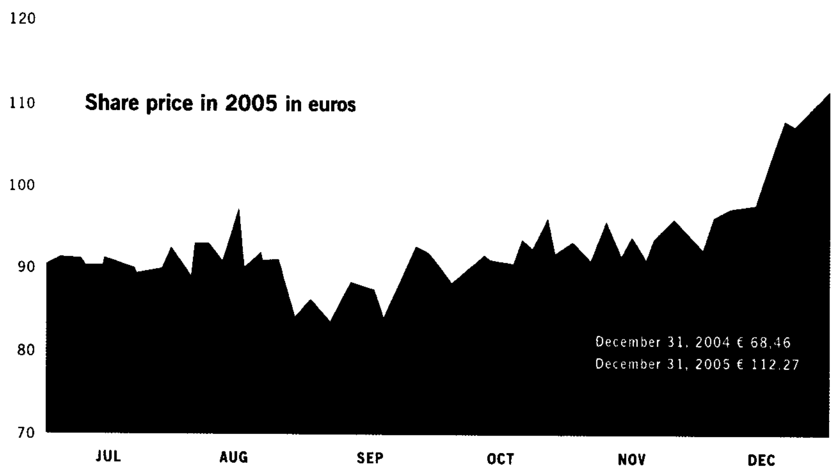
Alongside the awards for RATIONAL AG's superior technology and innovation, in 2005 the company's financial communications have once again been singled out for high praise. The RATIONAL Annual Report 2004 was awarded the Vision Award Platinum – 2004 by the League of American Communication Professionals (LACP) as the best annual report in the Equipment, Machinery, Instruments category. Scoring 95 out of a possible 100, RATIONAL excelled in the categories of transparency, informative value, financial information, creativity and layout, beating off a highly competitive field.

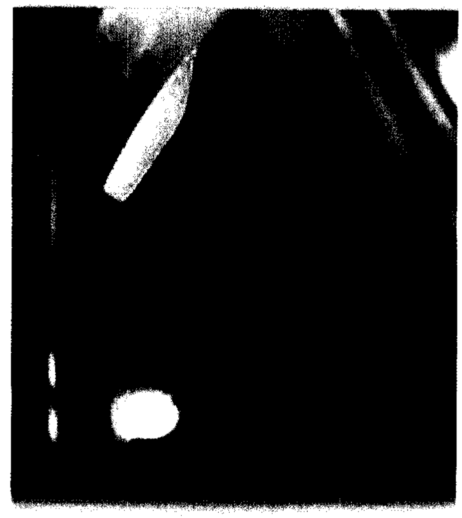
Renowned institutions cover RATIONAL

Merrill Lynch, Deutsche Bank, Dresdner Kleinwort Wasserstein, WestLB and Bankhaus Lampe were another five renowned institutions that initiated coverage of RATIONAL AG in 2005 alone. The analysts' in-depth studies all echo the same positive sentiment, especially in relation to entrepreneurial quality and future growth opportunities.

Attractive dividend

In addition to the increase in the share price, the company's attractive dividend policy also underpins the RATIONAL share's position as a high-yield form of investment. At the 2005 Shareholders' Meeting, the Executive and Supervisory Boards will be proposing a dividend of € 3.00 per share.





High cash flow and low tied-up capital as a result of pure customised production and excellent receivables and inventory management permit this high dividend ratio while nonetheless securing the necessary finance for the company's strategic growth targets.

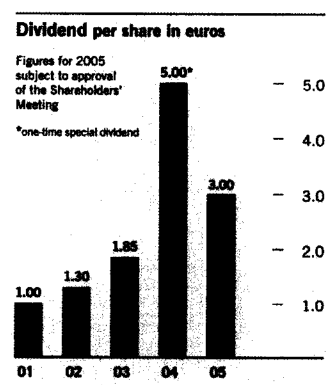
Value-based Management

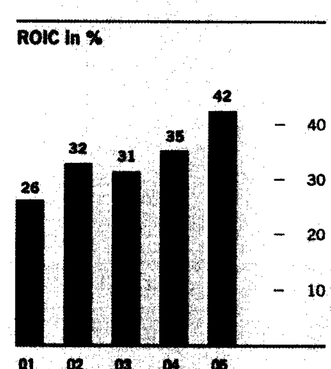
Return on Invested Capital (ROIC) at record level

Operational control of the company is based on a strategic, value-based management system, the aim of which is to achieve sustained, year-on-year growth in the value of the company. A tailor-made, multilevel global planning and controlling system ensures that all the services provided by the company are reliably planned, promptly recorded, reported with a high degree of accuracy, analysed and evaluated in terms of key figures. Decisions on any necessary adjustment measures are taken and implemented immediately.

An important key figure in terms of strategic control is return on invested capital (ROIC). A company's value can only be increased if ROIC exceeds the cost of capital.

The ROIC for 2005 is 42 percent, which is outstanding; it once again far outstrips the previous year's return, which was 35 percent. Assuming that the cost of capital was 9 percent, this means that in fiscal 2005 alone, the company's value was increased by € 32.9 million (previous year: € 29.2 million).





Procurement

Collaboration with suppliers is the key to success

As a company with little vertical integration, the quality and reliability of our system suppliers are crucial to our success.

Working on the principle of extending our production facilities outside the company, we have forged close partnerships with or system suppliers, which can include consulting and the direct transfer of know-how on joint re-engineering projects. In addition to supplier certification, the cooperation is underpinned, in particular, by annual partner plans with quality and productivity targets, monthly reporting for the principal key figures and regular audits.

Also as a consequence of this close and successful collaboration, expenditure on materials rose by only 6.1 percent in 2005, from € 73.9 million to € 78.4 million.

The RATIONAL supplier evaluation system examines product quality closely and also considers the quality of cooperation. RATIONAL honours the special performance of its best suppliers at its annual supplier conference, which in 2005 was held on May 12.

Employees

Qualified and motivated staff are the key to success

Ambitious targets call for extraordinary employees. Employee skills, creativity, motivation and dedication are ultimately the key success factors both at home and abroad. RATIONAL employees work highly efficiently like entrepreneurs within the company. They take their own decisions on matters affecting their area of work. RATIONAL has no management hierarchies or specific decision-making bodies. Our integrated process organisation avoids unnecessary interfaces and thus creates holistic, self-contained areas of responsibility.

Targeted development of potential managers

For RATIONAL AG to continue to grow, it requires an increasing number of qualified managers who are familiar with its corporate culture.
Each year, RATIONAL extends its system of targeted development for potential managers. In addition to this, our rolling development program assures a high intake of university graduates in all divisions of the company, and these are also fast-tracked.

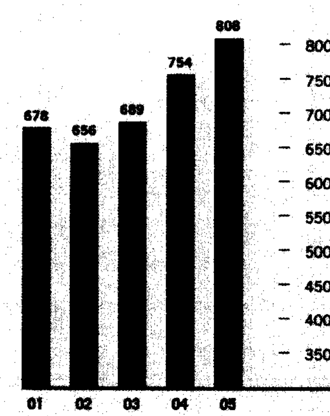
54 new jobs created in 2005

Only increased demand can create new jobs, and in 2005 RATIONAL was in a position to create 54 new, highly skilled, international positions. On December 31, 2005, the RATIONAL Group employed 808 people (previous year: 754), 271 of whom work for us abroad (previous year: 228).

Employee satisfaction at highest level

The results of the NFO/Infratest employee survey for 2005 attest to RATIONAL's leading position as regards employee satisfaction. In international comparison with companies from all sectors, RATIONAL was in the top 10 percent for employee satisfaction and loyalty.
With 81 index points, RATIONAL achieved well above the average of 60 points awarded to all the other companies surveyed. Employee quality, satisfaction and loyalty at this high level are an important factor for positive development in the future.

Number of employees on Dec. 31, 05



Risk Report

Responsible use of resources

Everything RATIONAL does is geared to offering the best possible range of benefits to people involved in the thermal preparation of food in professional and industrial kitchens.
We therefore attach special importance to the responsible use of resources: at RATIONAL, innovations are always geared to the environmentally friendly and sparing use of both raw and processed materials.
This applies as much to product development as it does to the production, shipping and subsequent use of appliances on the customer's premises. The SelfCooking Center®, which was successfully launched in 2004 and which has already established itself as a world standard, once again provides impressive testimony to these high aspirations.
We have been involved in constructive partnerships with the various regional environmental protection agencies for years, ensuring that statutory limits are not exceeded and that standards are met, thanks to our particularly environmentally friendly production methods and best-in-class environmental protection measures.

The opportunities outweigh the risks

RATIONAL has a risk management system which is implemented worldwide, enabling it to identify and analyse opportunities and risks at an early stage and so take appropriate preventive measures.
Compared to the risks that are inevitably associated with any global operator, RATIONAL attaches far more importance to the opportunities that present themselves, and all the more so in view of the enormous market potential that is still waiting to be exploited, coupled with RATIONAL's exceptional competitive position.
The company's management is especially keen to enable employees to identify and take advantage of opportunities and to both accurately assess and appropriately deal with, risks. For this reason, the processes and tools the company employs for the early identification of opportunities and risks are constantly reviewed, improved and taught.

The unique RATIONAL risk management system

A multiplicity of control mechanisms and management systems has been placed at our employees' disposal. These were further developed in 2005 and are now even better interlinked. Key components of the risk management system include:

> The integrated RATIONAL planning process that involves all corporate divisions worldwide and that stipulates specific objectives and detailed measures for the implementation of sales and financial planning.
> Reliable monthly reporting of all corporate processes that is analysed and commented on by Controlling and quickly delivered to all decision-makers, to enable them to implement the necessary adjustment measures promptly.

Accurate process descriptions for all RATIONAL business processes, the quality and observance of which are assured worldwide by regular training courses and success checks.

An internal audit, which provides an independent and objective snapshot of the current situation with regard to all corporate processes, and assesses and weights any variations from targets. The scoring system for both process risks and corporate risks is standardised, so that comparisons can be made between processes with regard to quality and risk situation, and their development evaluated over time.

Benchmarks and threshold values to assist RATIONAL managers in the early identification of undesirable developments, so that appropriate countermeasures can be implemented promptly.

The use of a globally integrated treasury management system which provides optimal cash management worldwide.

Customer satisfaction surveys conducted annually in all the important markets, providing an external perspective on product quality, service quality and competitiveness.

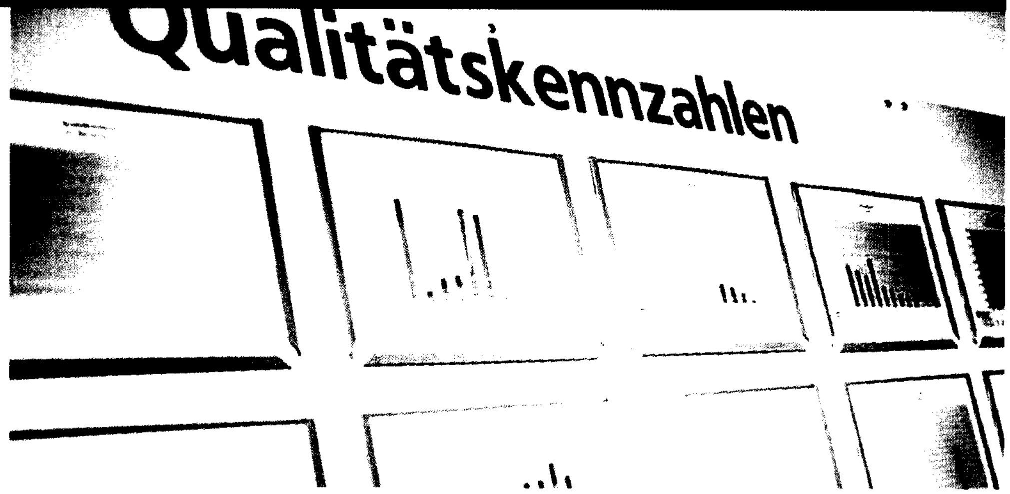
Partner plans agreed annually with important suppliers and service partners, to raise quality and productivity. Adherence to these plans is ensured by means of regular reporting, auditing and certification.

A security concept for all sites that takes account of the local situation and regional regulations and protects employees, plant, buildings and know-how. Standby teams and emergency plans are available to ensure people know what to do in critical situations.

IT security, which is particularly important to RATIONAL, with its many sites all over the world and its mobile PC users. The safeguards and tools used in IT security are continually updated, and are checked and evaluated by both internal and external specialists.

A comprehensive insurance strategy that is reviewed annually and adapted to the new risk situation.

Strategy meetings held by the Supervisory and Executive Boards, which minimise the risk of strategically undesirable developments.



The effectiveness and topicality of the risk management system is assessed regularly by the internal audit function, and any necessary changes are made. Furthermore, the external auditor checks whether the Executive Board has taken the steps required under para. 91 section 2 of the German Stock Companies Act (Aktiengesetz), to ensure that developments that could jeopardise the existence of the company are identified at an early stage.

Overall risk situation 2005

Summary

Taking into account the measures taken, the existing risks nether individually nor cumulatively pose a threat to RATIONAL's future viability.

General economic and sector risks

The international market in which RATIONAL operates is susceptible to general economic risks. Economic trends as well as trends within the sector are monitored constantly and factored into corporate planning. Nevertheless, these factors will probably not have any serious impact on business development, given RATIONAL's special market position. RATIONAL's market positioning provides a good opportunity for the company to continue to grow at an above-average rate in 2006, despite the risks inherent in the current climate within the sector.

Natural disasters and political crises

Natural disasters and political crises can jeopardise product sales in affected countries. This risk is minimised by our cooperating with numerous different sales and service partners in each region. Also, the international nature of the business, with operations across numerous individual markets, helps spread the risk as well as considerably reducing its impact.

Financial opportunities and risks

In 2005, the share of total sales in foreign currencies outside the Euro Zone amounted to 32.0 percent (previous year: 31.5 percent). Since the cost of sales is predominantly generated in the Euro Zone, changes in exchange rates can have either a positive or a negative affect on the company's earnings position.

However, the multitude of markets covered does mean that risk is already spread widely. In addition to this, not only our internal audit function and auditors, but also banks, have judged RATIONAL's currency hedging activities to be very professional and effective.

Trade accounts receivable are secured against the risk of default by trade indemnity insurance and bank letters of credit. On the balance sheet date, around 80 percent of receivables were covered by corresponding securities.

Product development and the protection of trademarks

RATIONAL is by far the product and technology leader in its field. Innovations are protected by intellectual property rights and numerous patents and patent applications. Where patent infringements are identified, protective measures or even legal proceedings may be initiated.

Product quality

The quality of our products continued to improve in 2005. The relative improvement in warranty costs and the declining number of customer service callouts confirm this trend.

Nevertheless, RATIONAL is aware of the potential risks associated with quality problems and the incorrect use of products. For this reason, service reports worldwide are subject to expert scrutiny and analysis. Senior corporate management has also ensured that adequate insurance cover exists for associated product liability risks.

Personnel management-related risks

If managers or other staff in key positions leave RATIONAL and no suitable replacement can be found for them at short notice, RATIONAL's business operations could be adversely affected.

But as all corporate processes are standardised and documented, and as employees are continually being hired and trained in all our divisions and at all our sites, there is little risk of this, as experience with changes in management in some of our subsidiaries has shown.

Raw materials prices and procurement risks

Despite a further rise in the price of raw materials, and of high-grade stainless steel in particular, the margin in 2005 is still well above the previous year's figure.

Continual product improvements, strong partnerships with key suppliers and further process optimisations in production more than offset the rises in raw materials prices, with the result that the cost of sales increased relatively little compared to sales.

One consequence of higher energy prices and additional regulatory requirements for freight handling and customs clearance was that shipping costs rose. RATIONAL is countering this development by reducing stocks held by its subsidiaries and by optimising shipments.

Supplementary report

No events of any significance for assessing the net assets, financial position and results of operations of the RATIONAL Group occurred after the close of the financial year.

Outlook – Positive expectations for 2006

Doubts over sustained economic recovery

No major improvements on the economic scene are anticipated for 2006. In other words, everything is generally expected to remain the same, with the global economy again predicted to grow by around 4.1 percent. Raw materials prices will not drop, and the company is working on the assumption that most foreign currencies will stabilise at current levels.

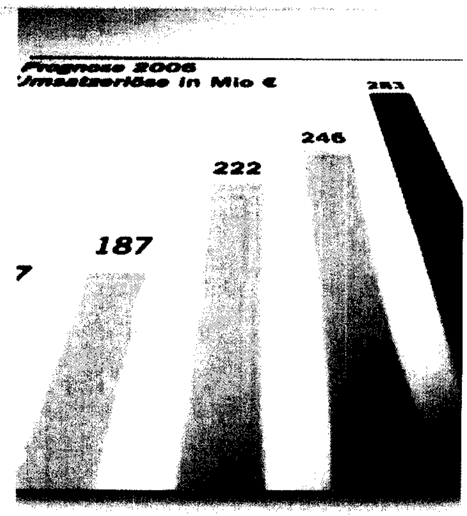
Improved opportunities for growth

Despite past successes, the untapped world market potential for the SelfCooking Center® remains around 2 million kitchens or 80 percent. The new VarioCooking Center® technology also exactly covers the same target group. So the untapped world market potential for this technology alone is 2.5 million kitchens or practically 100 percent again.

High growth in sales and earnings in 2006

In 2005, RATIONAL succeeded in rolling out a much broader technology platform for its customers. Meanwhile the international sales and marketing network has been significantly extended. The targeted development of strategic key markets will receive a further boost in January with two new sales companies: RATIONAL International AG and FRIMA International AG, both headquartered in Switzerland.

Against this backdrop we increased sales growth of 15 percent, to € 283 million, coupled with an above-average rise in earnings of 17 percent, to € 78 million (EBIT), are expected for 2006.



Employees as entrepreneurs within the enterprise

Ambitious targets call for extraordinary employees. Employee skills, creativity, commitment and identification of all employees with the company goals are crucial in this respect. One of RATIONAL's great strengths is that our employees think and act as entrepreneurs within the company. They are our greatest asset in ensuring RATIONAL's continued success going forward.

We would like to thank all our customers, partners, suppliers, shareholders and especially our employees for the confidence they have placed in RATIONAL.

Landsberg am Lech, February 22, 2006

The Executive Board

Financial Statements

7[illegible]	Income Statement	76	Notes
7[illegible]	Balance Sheet	[illegible]	[illegible]
74	Cash Flow Statement	3[illegible]	Notes [illegible] the Income Statement
[illegible]5	Statement [illegible]	[illegible]	Notes on the Balance Sheet
		[illegible]	Notes on the Cash Flow Statement
		1[illegible]	Other Notes

EXHIBIT C

Report by the Supervisory Board of RATIONAL AG on the fiscal year 2005

In the year under review, the Supervisory Board performed the tasks laid down for it by law and the Articles of Association. It regularly consulted the Executive Board and supervised the company's management. The Supervisory Board was closely involved in all decisions of fundamental importance for the company.

During the past year the Supervisory Board regularly examined the efficiency of its work, in particular the procedures in the Supervisory Board and the timely provision of sufficient information. No committees were formed, since the Supervisory Board of RATIONAL Aktiengesellschaft consists of only three members. Forming committees comprising fewer than three members would not result in any further increase in the efficiency of the Supervisory Board.

The Executive Board provided the Supervisory Board with timely, regular and full reports on business policy and corporate planning, in particular financial, investment and personnel planning.

The course of the business, revenue trends, liquidity and unforeseen developments for all individual companies and for the Group were detailed in monthly written reports.

Deviations in the course of business from published plans and targets were discussed individually and fully. In particular, the company's strategic orientation and all business transactions of importance for the company were the subject of intensive consultation.

In the course of 2005, in addition to numerous individual discussions, regular monthly meetings six ordinary meetings of the Supervisory Board were held, at which the entire Supervisory Board was present. In addition, the members of the Supervisory Board regularly consulted each other in writing and by telephone. The Supervisory Board was also informed in detail of projects and plans of particular significance for the company or of those requiring urgent action between its meetings. Where applicable, the Supervisory Board also passed resolutions outside the ordinary meetings.

Central topics of the consultations were:

product development with the positioning of a completely new complementary product,

the further internationalisation of the group, in terms of sales, service and the commercial field,

the further development of risk management,

and the expansion of the management structures brought about by the increasing decentralisation of responsibility and targeted promotion of potential managers.

The RATIONAL management strategy of developing clear medium- and long-term corporate targets, and using these to derive and agree personal divisional targets, was further developed and intensified in a broad-based approach.

The annual financial statements for the fiscal year from January 1 to December 31, 2005, prepared in accordance with the regulations laid down in the German Commercial Code (HGB) and the company's management report were audited by the company's auditor, Allrevision Dornhof Kloss and Partner GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Munich. The auditors granted an unqualified auditors' opinion.

Consolidated financial statements according to IFRS, as applicable in the EU, as well as according to IFRS overall and the supplementary commercial regulations applicable under para. 315a section 1 of the German Commercial Code were prepared, as well as a consolidated management report. The auditors audited the consolidated financial statements and the consolidated management report and granted them unreserved approval.

The annual financial statements, consolidated financial statements, the management report, the auditors' reports and the proposal by the Executive Board on the appropriation of retained earnings were passed to the Supervisory Board and distributed to all Supervisory Board members in good time. They were the subject of intensive deliberations at the meeting of the Supervisory Board held on February 22, 2006. The auditors participated in consultations on the company's financial statements and the consolidated financial statements. They reported on the results of the audit and were available to supply the Supervisory Board with additional information.

Following the final result of their audit and consultations, no objections were raised. The Supervisory Board approved the annual financial statements for RATIONAL AG as at December 31, 2005 as prepared by the Executive Board with the management report for 2005 in the certified version of February 7, 2006 and authorised the consolidated financial statements as at December 31, 2005 in the certified version of February 22, 2006. The company's annual financial statements for 2005, including the management report, are thereby adopted in accordance with para. 172 section 1 AktG (German Stock Companies Act).

The Supervisory Board concurs with the proposal by the Executive Board to distribute from RATIONAL AG's total of € 44.1 million in retained earnings for 2005 a dividend of € 3.00 per share to shareholders, and to carry forward the remainder to new account.

The Supervisory Board would like to thank the members of the Executive Board and the company's management for their outstanding achievements in the fiscal year 2005 and for their close, constructive participation. Our particular thanks go to all employees for their reliability, loyalty and high level of commitment, which once again was the critical factor ensuring success in 2005.

Landsberg am Lech, February 22, 2006

Siegfried Meister
Chairman of the Supervisory Board

Report by the Executive Board of RATIONAL AG on the fiscal year 2005

The Executive Board of RATIONAL AG is responsible for preparing the consolidated financial statements and for the information included in the consolidated management report. Reporting is carried out according to the rules of the International Accounting Standards Committee. The consolidated management report has been prepared in compliance with the regulations of the German Commercial Code (HGB).

By carrying out group-wide reporting according to standard guidelines, using reliable software, selecting and training qualified personnel, and by regular checks of our internal auditing, we ensure an accurate picture of how business has progressed throughout the group and, thus, a reliable basis for the consolidated financial statements and the management report.

A risk management system that contains a number of effective internal control and monitoring systems makes it possible for the Executive Board to recognise financial risks, such as changes in the economic development of the group, at an early stage and to initiate appropriate countermeasures.

The financial statements of the parent company are not included in the consolidated annual report. They are displayed at the business premises of RATIONAL AG in Landsberg am Lech for inspection and can be requested at any time.

In accordance with the resolution of the Shareholders' Meeting, the Supervisory Board has appointed Allrevision Dornhof Kloss und Partner GmbH, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, as an independent auditor to audit the consolidated financial statements. Together with the auditors, the Supervisory Board will discuss the consolidated financial statements, including the consolidated management report and the audit report, in detail at its Balance Sheet Meeting. The result of this audit can be found in the report by the Supervisory Board.

Landsberg am Lech, February 22, 2006

RATIONAL AG
The Executive Board

Auditors' Report

"We have audited the consolidated financial statements prepared by the Parent Company RATIONAL Aktiengesellschaft, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2005.

The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. [paragraph] 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Munich, February 22, 2006

Allrevision Dornhof Kloss und Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Wenk	Walter
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Income Statement RATIONAL Group

Thousands of euros	2005	2004	Note I Page
Sales	246,410	221,815	01 I 86
Cost of sales	– 96,662	– 90,294	02 I 87
Gross profit	**149,748**	131,521	
Sales and service expenses	– 61,390	– 56,892	03 I 87
Research and development expenses	– 10,011	– 10,428	04 I 87
General administration expenses	– 11,693	– 10,161	05 I 87
Other operating income	4,699	4,055	06 I 87
Other operating expenses	– 4,447	– 4,755	07 I 88
Earnings before interest and taxes (EBIT)	**66,906**	53,340	
Financial results	318	513	08 I 88
Earnings from ordinary activities (EBT)	**67,224**	53,853	
Taxes on income	– 24,847	– 20,008	09 I 89
Group earnings	**42,377**	33,845	
Retained earnings brought forward	**6,871**	29,876	
Retained earnings	**49,248**	63,721	

	2005	2004	Note I Page
Average number of shares (undiluted)	11,370,000	11,370,000	
Average number of shares (diluted)	11,404,500	11,401,625	
Earnings per share (undiluted) in euros relating to the consolidated results and the number of shares	3.73	2.98	10 I 90
Earnings per share (diluted) in euros relating to the consolidated results and the number of shares	3.72	2.97	10 I 90

Assets RATIONAL Group

Thousands of euros	Dec. 31, 2005	Dec. 31, 2004	Note I Page
Intangible assets	718	1,031	12, 14 I 91
Property, plant and equipment	27,179	26,858	13, 15 I 92
Financial assets	218	218	16 I 93
Fixed assets	**28,115**	28,107	
Other long-term assets	195	165	19 I 94
Long-term securities	—	2,000	20 I 94
Deferred tax assets	2,992	1,761	09 I 89
Long-term assets	**31,302**	32,033	
Inventories	16,219	14,338	17 I 93
Trade receivables	46,089	36,694	18 I 94
Other short-term assets	3,763	3,757	19 I 94
Cash in hand and cash in bank accounts	34,763	59,941	21 I 95
Short-term assets	**100,834**	114,730	
Balance sheet total	**132,136**	146,763	

Equity and Liabilities RATIONAL Group

Thousands of euros	Dec. 31, 2005	Dec. 31, 2004	Note I Page
Subscribed capital	11,370	11,370	22 I 96
Capital reserves	28,792	28,472	23 I 96
Revenue reserves	514	514	24 I 96
Retained earnings	49,248	63,721	
Equity	**89,924**	104,077	
Provision for pensions	683	591	25 I 96
Other long-term liabilities	4,150	4,357	30 I 98
Long-term liabilities	**4,833**	4,948	
Provision for taxation	6,435	9,969	26 I 97
Other short-term provisions	14,167	11,416	27 I 97
Liabilities to banks	2,537	2,202	28 I 98
Trade accounts payable	5,361	5,844	29 I 98
Other short-term liabilities	8,879	8,307	30 I 98
Short-term liabilities	**37,379**	37,738	
Liabilities	**42,212**	42,686	
Balance sheet total	**132,136**	146,763	

Cash Flow Statement RATIONAL Group

Thousands of euros	2005	2004
Cash flow from operating activities		
Earnings from ordinary activities	67,224	53,853
Depreciation on fixed assets	4,341	4,631
Net results from disposal of fixed assets	3	34
Non-realised foreign currency result	124	342
Interest income	– 670	– 997
Interest expenses	460	484
Valuation of share options	240	220
Operating results before changes in working capital	71,722	58,567
Changes in		
Inventories	– 1,881	– 1,570
Trade accounts receivable and other assets	– 9,252	– 4,134
Accruals	2,843	2,087
Trade accounts payable and other liabilities	– 367	1,468
Cash generated from current business activities	63,065	56,418
Interest paid	– 373	– 459
Taxes paid on income	– 29,933	– 16,727
Net cash generated from operating activities	**32,759**	39,232
Cash flow from investing activities		
Investing in intangible assets and tangible assets	– 4,353	– 5,722
Net results from disposal of fixed assets	25	283
Interest received	633	740
Dividend from non-consolidated, affiliated companies	39	78
Net cash used for investing activities	**– 3,656**	– 4,621
Cash flow from financing activities		
Dividends	– 56,850	– 21,035
Changes within the scope of finance leasing agreements	187	– 1,268
Repayment of liabilities to banks	– 2,202	—
Granted long-term credit and loans	2,537	—
Purchase of long-term funds	– 3,000	– 15,000
Release of long-term funds	17,000	—
Net cash used for financing activities	**– 42,328**	– 37,303
Net changes in cash	**– 13,225**	– 2,692
Changes in cash from exchange rate changes	47	– 66
Change in cash funds	– 13,178	– 2,758
Cash on January 1	**44,941**	47,699
Cash on December 31	**31,763**	44,941
Cash in hand and cash in bank accounts on December 31	**34,763**	61,941
Long-term funds not included in cash position (< 3 months)	3,000	17,000

Statement of Changes in Equity RATIONAL Group

Thousands of euros	Subscribed capital	Capital reserve	thereof: non-realised	Revenue reserves	Retained	Total
Balance at Jan. 1, 2004	**11,370**	**27,790**	**– 2,753**	**514**	**50,911**	**90,585**
Dividends	—	—	—	—	– 21,035	– 21,035
Group earnings	—	—	—	—	33,845	33,845
Differences from currency conversion	—	47	—	—	—	47
Other changes	—	635	415	—	—	635
Balance at Dec. 31, 2004	**11,370**	**28,472**	**– 2,338**	**514**	**63,721**	**104,077**
Dividends	—	—	—	—	– 56,850	– 56,850
Group earnings	—	—	—	—	42,377	42,377
Differences from currency conversion	—	80	—	—	—	80
Other changes	—	240	—	—	—	240
Balance at Dec. 31, 2005	**11,370**	**28,792**	**– 2,338**	**514**	**49,248**	**89,924**

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Description and explanation of business activities

RATIONAL AG is a public limited company under German law with its registered offices at Iglinger Straße 62, Landsberg am Lech, entered in the Augsburg Commercial Register under number 2001. RATIONAL is the worldwide market and technology leader in the field of thermal preparation of food in professional kitchens. Since its formation in 1973, the company's sole activities have been the development, production and sale of professional cooking appliances for industrial kitchens. In 2004, RATIONAL AG replaced its existing combi-steamer technology with the world's first SelfCooking Center®, replacing its three current product lines – CD, CM and CPC – with a basic model, the Combi-Master (CM), and the SelfCooking Center®. Our appliances and accessories are sold worldwide via both our own subsidiaries and independent business partners.

In parallel to the SelfCooking Center® our French subsidiary FRIMA developed an entirely new complementary product in the guise of the VarioCooking Center® which was successfully launched in selected European test markets in May 2005. Whereas the SelfCooking Center® is used for cooking all foods for which the ideal cooking process is the transfer of heat by hot, fast-flowing gases, the new VarioCooking Center® can be used to cook all the other products found in a professional kitchen, i.e. those that are cooked in liquid or in direct contact with heat.

The shares of the company, which has been listed on the German Stock Exchange since March 2000, have been admitted to the Prime Standard, and are traded on the organised market in the SDAX segment. RATIONAL is also listed in the selective indices GEX (German Stock Exchange), BayX30 (Munich Stock Exchange) and the MSCI (Morgan Stanley Capital International Inc.) World Index.

Fundamental accounting principles

The consolidated financial statements of RATIONAL AG for the financial year 2005 (giving the previous year's figures) were prepared in compliance with the International Accounting Standards (IAS) adopted and published by the International Accounting Standards Board (IASB) or the International Financial Reporting Standards (IFRS), and their interpretation by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) respectively as these are to be applied in the EU, along with the IFRS in their entirety and those supplementary conditions to be applied as per Section 315a (1) German Commercial Code (HGB). All the effective standards for the financial year 2005 were taken into account, with the result that a true and fair view of the RATIONAL group's net assets, financial position and results of operations has been given.

In the financial year 2005, for the first time, IFRS 2 "Share-based Payment" and IFRS 3 "Business Combinations", recently approved and published by the IASB, were implemented, in conjunction with IAS 36 (revised 2004) "Impairment of Assets". In compliance with IFRS 2, the 34,500 stock options granted to the Executive Board were valued and shown as personnel expenses in an amount of euro 240 thousand in the income statement for the financial year 2005. Adjustments in an amount of euro 220 thousand, divided between the manufacturing, (euro 37 thousand), sales (euro 73 thousand), research and development (euro 37 thousand) and administration (euro 73 thousand) areas, were made to the income statement for the previous year. The effects on the diluted and undiluted profit per share for the previous year amount to euro 0.02. The valuation is described in more detail in the Note headed "Stock options". In compliance with IFRS 3, that goodwill shown as assets under "Intangible assets" is no longer subjected to scheduled depreciation as it was in previous years. Instead, the goodwill shown is subjected to an annual "impairment test" in compliance with IAS 36 (revised 2004). If the market value to be applied or the utility value is below the book value for the goodwill, the reduction in value is allowed for in the income statement. The "impairment test" is described in the "Goodwill" Note.

Those amendments to existing specifications published up to December 31, 2005 and newly issued standards and interpretations which have not yet entered into force for RATIONAL AG were not applied during the preparation of the consolidated financial statements but they do not have any effect upon the net assets, financial position and results of operations. In detail, these are: Amendment to IAS 1 "Capital Disclosures"; IAS 19 "Actuarial Gains and Losses"; Amendment to IAS 39 "Cash Flow Hedge Accounting of Forecast Intragroup Transactions"; Amendment to IAS 39 "Fair Value Option"; Amendment to IAS 39 in conjunction with IFRS 4 "Financial Guarantee Contracts"; Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards"; IFRS 6 "Exploration and Evaluation of Mineral Resources"; Amendment to IFRS 6 "Exploration and Evaluation of Mineral Resources"; IFRS 7 "Financial Instruments Disclosures"; IFRIC 4 "Determining whether an Arrangement contains a Lease"; IFRIC 5 "Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"; IFRIC 6 "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment"; IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies".

The present consolidated financial statement does not include accounting and valuation methods in compliance with German commercial law which are not consistent with IFRS/IAS or IFRIC/SIC. The following accounting and valuation methods that differ from German trading law were applied:

Goodwill

In compliance with IFRS 3, no scheduled depreciation of goodwill was effected.

Inventories

In compliance with IAS 2 (revised 2004), inventories are valued at whichever is the lower of the respective values for production costs and net sales price. Production costs include all costs directly attributable to the production process as well as appropriate portions of production-related overheads.

Deferred tax assets

Recognition of deferred taxes is based on the balance sheet-oriented liabilities method in compliance with IAS 12 (revised 2004). Among other things, deferred tax claims from carried-over tax losses are capitalised.

Provisions for pensions

Provisions for pensions are evaluated using the projected unit credit method, taking into account the corridor rule in compliance with IAS 19 (revised 2004).

Currency conversion

Currency receivables and liabilities are converted at the current rate on the balance sheet date and the resulting differences are always shown as affecting net income, in compliance with IAS 21 (revised 2004).

Financial investments held to maturity

Financial investments classified as "financial investments held to maturity" are valued at acquisition cost carried forward.

Derivative financial instruments

Derivative financial instruments are recorded, in compliance with IAS 39 (revised 2004), on the balance sheet date at current market value, provided this can be reliably determined. The resulting value changes are treated as affecting net income.

Leasing

Leasing assets and leasing liabilities are accounted for in compliance with IAS 17 (revised 2004). In the case of financing leasing agreements, this results, in compliance with the relevant allocation criteria of IAS 17 (revised 2004), in capitalisation of the asset value in property, plant and equipment and in the leasing liability being shown under other liabilities.

Stock options

In compliance with IFRS 2, the stock options issued to the Executive Board were treated as personnel expenses for accounting purposes and entered against capital reserves.

The financial year for RATIONAL AG and all included subsidiaries corresponds to the calendar year, and the balance sheet date for the consolidated financial statement is the same as the balance sheet date of the parent company, in compliance with IAS 27 (revised 2004). The financial statements of the consolidated domestic and foreign companies were audited by independent auditors and granted an unqualified auditor's opinion.

Consolidation methods

In addition to the parent company, all major domestic and foreign subsidiaries under the legal control of RATIONAL AG have been included in the consolidated financial statement of RATIONAL AG.

Capital consolidation (initial consolidation) is carried out on the dates when individual subsidiaries are acquired or formed. The acquisition values of participations are offset against the equity capital apportionable to them on the date they are first included in the consolidated financial statement (book value method). If applicable, the remaining differences are allocated to the assets and liabilities in so far as their present applicable value exceeds the book value on the date of the initial consolidation. Any difference remaining after this offset is reported as goodwill. In compliance with IAS 36 (revised 2004), this is then subjected to an impairment test, in order to determine any possible requirement for depreciation.

Non-consolidated subsidiaries are recorded at acquisition cost or applicable value if lower. The effects of all group-internal business transactions are eliminated. Receivables and liabilities between the included companies are consolidated, inter-company profits in the inventories are eliminated and group-internal income is offset against the corresponding expenses. The tax accruals and deferrals required by IAS 12 (revised 2004) are carried out on the basis of temporary differences from consolidation measures.

With the exception of the scheduled depreciation of goodwill, which is no longer to be carried out, the consolidation methods remain unchanged from those used last year.

Presentation of financial statements

The functional currency and the currency used in the consolidated financial statements is the euro. Figures are shown in thousands of euros (euro thousand) in order to enhance clarity. The structure of the balance sheet was adjusted to take account of the new specifications on format set down in IAS 1 (revised 2003). The presentation for the financial year 2005 and the previous year defines maturities of "below 12 months" as short-term and those of "over 12 months" as long-term. Items shown as fixed assets and securities and items shown as equity capital and provisions for pensions are exclusively long-term. The balance sheet items of inventories, trade receivables, balances with banks and cash on hand, liabilities to financial institutions, other reserves and trade liabilities are exclusively short-term. The "Other assets" and "Other liabilities" balance sheet items were shown as long- or short-term, depending upon their remaining term.

Foreign currency conversion

The financial statements of the foreign subsidiaries are converted into euros according to the concept of functional currency. The respective national currency serves as the functional currency in this case. Asset values and liabilities are consequently converted at the middle exchange rates on the balance sheet date and the items in the income statement at the annual average rates. The portions of equity capital to be included in the capital consolidation and the retained profits or accumulated losses brought forward are converted at historic rates. Should differences arise on the balance sheet, they are recorded within equity capital as "differences from the currency conversion" not affecting net income, and are offset against the reserves.

The following table shows the most important exchange rates in relation to the euro used in the annual financial statements of the RATIONAL group, with their comparative changes over the course of the year:

	Annual average exchange rate			Exchange rate on balance sheet date		
1 euro =	**2005**	2004	**Change**	**2005**	2004	**Change**
USD – US dollar	1.2379	1.2464	– 1%	1.1825	1.3621	– 13%
JPY – Japanese yen	136.91	134.07	2%	139.17	139.65	0%
GBP – Pound sterling	0.6832	0.6799	0%	0.6863	0.7051	– 3%
CHF – Swiss franc	1.5478	1.5441	0%	1.5548	1.5429	1%
CAD – Canadian dollar	1.4989	1.6161	– 7%	1.3750	1.6416	– 16%
SEK – Swedish krona	9.2993	9.1274	2%	9.3920	9.0206	4%
PLN – Polish zloty	4.0253	4.8626	– 17%	3.8650	4.0845	– 5%

Consolidated companies

In compliance with the specifications of IAS 27 (revised 2004), as at the balance sheet date of December 31, 2005, the consolidated financial statement of RATIONAL AG includes four domestic and fifteen foreign subsidiaries, in addition to the parent company. In comparison with the previous year, therefore, the number of consolidated companies in RATIONAL AG has increased by seven, to nineteen.

RATIONAL Austria GmbH, with registered offices in Salzburg, which was formed on March 25, 2005, was included in the consolidated companies for the first time in the consoldiated financial statements for the first quarter of 2005. The authorised capital of RATIONAL Austria GmbH is euro 35 thousand. The new subsidiarires RATIONAL Polen sp.zo.o., with registered offices in Warsaw, formed on July 1, 2005, with an authorised capital of euro 12 thousand and RATIONAL France SAS, with registered offices in Noisiel, France, formed on August 17, 2005, with authorised capital of euro 37 thousand, were included as consolidated companies for the first time in the consolidated financial statements for the 3rd quarter of 2005. The new subsidiaries RATIONAL International AG, formed on August 30, 2005, with registered offices in Balgach, Switzerland, and an authorised capital of euro 64 thousand, and FRIMA International AG, with registered offices in Balgach, Switzerland, and an authorised capital of euro 65 thousand, formed by RATIONAL International AG on October 17, 2005, are included as consolidated companies for the first time in the consolidated financial statements as at December 31, 2005. With the exception of the FRIMA International AG subsidiary, 100 percent of the authorised capital of the new subsidiaries was provided by RATIONAL AG as the parent company. 100 percent of the authorised capital of FRIMA International AG was provided by RATIONAL International AG.

On May 1, 2005, the RATIONAL subsidiary FRIMA S.A., with registered offices in Wittenheim, France, formed FRIMA Deutschland GmbH, with registered offices in Frankfurt, as a fully-owned subsidiary with an authorised capital in an amount of euro 25 thousand. FRIMA International AG has a fully-owned subsidiary, FRIMA France SAS, with registered offices in Wittenheim and an authorised capital of euro 100 thousand, which was was formed on December 31, 2005. Both new subsidiaries are included in the consolidated companies as at December 31, 2005.
The group's strategic orientation towards the development of new markets by its own subsidiaries was completed in December 2005, with the reassignment of investments held by RATIONAL Austria GmbH, RATIONAL Polen sp.zo.o. and RATIONAL France SAS from RATIONAL AG to RATIONAL International AG and with the reassignment of FRIMA Deutschland GmbH's investments, from FRIMA S.A. to FRIMA International AG for the financial year 2005. Since all the new subsidiaries were produced by formations of own companies, no assets, liabilities or contingent liabilities in accordance with IFRS 3 were assumed. During the year of formation, the new subsidiaries' contribution to earnings is a contribution to losses of euro 31 thousand.

As at December 31, 2005, therefore, the RATIONAL AG group comprised the following consolidated companies:

	% capital shares and % voting shares
Domestic	
LechMetall Landsberg GmbH, Landsberg am Lech, Germany	100.0
RATIONAL Großküchentechnik GmbH, Landsberg am Lech, Germany	100.0
RATIONAL Technical Services GmbH, Landsberg am Lech, Germany	100.0
Europe*	
RATIONAL Scandinavia AB, Lund, Sweden	100.0
RATIONAL UK Limited, Luton, United Kingdom	100.0
FRIMA S.A., Wittenheim, France	99.9
RATIONAL Schweiz AG, Balsthal, Switzerland	100.0
RATIONAL Iberica Cooking Systems, SL, Barcelona, Spain	100.0
RATIONAL Italia s.r.l., Marcon, Italy	100.0
RATIONAL International AG, Balgach, Switzerland	100.0
RATIONAL Polen sp.zo.o., Warschau, Poland	100.0
RATIONAL Austria GmbH, Salzburg, Austria	100.0
RATIONAL France SAS, Noisiel, France	100.0
FRIMA International AG, Balgach, Switzerland	100.0
FRIMA Deutschland GmbH, Frankfurt am Main, Germany	100.0
FRIMA France SAS, Wittenheim, France	100.0
America	
RATIONAL Cooking Systems Inc., Schaumburg, USA	100.0
RATIONAL Canada Inc., Vaughan, Canada	100.0
Asia	
RATIONAL Japan Co. Ltd., Tokyo, Japan	100.0

* For the description of consolidated companies, FRIMA Deutschland GmbH, registered office in Germany, is shown under region "Europe" as a subsidiary of FRIMA International AG.

In addition, RATIONAL AG holds 98 percent of the shares and voting rights in MEIKU Vermögens-verwaltung GmbH, with registered offices in Landsberg am Lech, which for its part has a stake as a sole limited partner in TAGO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landsberg KG.

We have decided not to include MEIKU Vermögensverwaltung GmbH and the financially inactive subsidiary of FRIMA S.A., Topinox Sarl, Nantes, France in the consolidated companies as they are only of minor importance for the group's net assets, financial position and results of operations. Both participations are valued at acquisition cost or applicable value if lower. As at the balance sheet date of December 31, 2005, MEIKU Vermögensverwaltung GmbH is showing an annual surplus in an amount of euro 50 thousand (previous year: euro 52 thousand) and authorised capital of euro 101 thousand (previous year: euro 91 thousand).

Accounting and valuation methods

Intangible assets

Acquired intangible assets are capitalised at acquisition cost and are depreciated over three to five years using the straight-line method. There are no development costs capitalisable in accordance with IAS 38.57.
Goodwill from capital consolidation and other corporate acquisitions is subjected to an annual impairment test in compliance with IAS 36 (revised 2004). If the market value to be applied or the utility value is below the book value for the goodwill, the reduction in value is allowed for in the income statement.

Property, plant and equipment

Tangible fixed assets are valued at acquisition cost or production cost, less scheduled depreciation. Production costs include all directly imputed costs and appropriate portions of production-related overheads. Financing costs are not reported. Depreciation is calculated on the basis of the useful economic lifespan of the items. Depreciation based solely on tax regulations is not applied.
The administration buildings and production facilities are depreciated over a period of between 25 and 50 years using the straight-line method.
The remaining tangible assets are mainly depreciated by the declining balance method at rates of between 20 and 30 percent. In the year of acquisition, depreciation was applied to new tangible assets "pro rata temporis". Low-value fixed assets are depreciated in full in the year of acquisition or production.

Finance leasing

Since a group bears all principal property-related risks and opportunities connected with the leasing object, beneficial ownership of leasing items according to IAS 17 (revised 2004) should be allocated to a group as a lessee, the leasing item is capitalised on the date the contract is concluded, at the cash value of the leasing instalments. The depreciation methods and useful lives correspond to those of comparable purchased asset values.

Financial assets

Financial assets are shown at acquisition cost carried forward (held-to-maturity) or the applicable value on the balance sheet date if lower, in so far as the value reduction is expected to be permanent.

Inventories

Raw materials, consumables, supplies and trade goods are valued at acquisition cost. The lowest value principle, in accordance with the weighted average price, is used to determine the acquisition cost.
Work in progress and finished products are valued at production cost. This includes acquisition costs and all costs directly chargeable to the production process, as well as appropriate portions of manufacturing-related overheads. Financing costs have not been allowed for.

Accounts receivable and other assets

Accounts receivable and other assets are disclosed at nominal value. In the case of accounts receivable, both any individual risks identified and the overall credit risk are accounted for by the conclusion of credit insurance policies and also by value adjustments. The book values shown for these monetary asset items correspond to their respective market values.
Accounts receivable valued in foreign currency are converted using the middle exchange rate on the balance sheet date.

Financial assets

All financial assets in current assets are recorded, initially at acquisition cost, on the account date, i.e. the date on which the claim arose or the economic interest was transferred. Standard purchases are recorded using the value on the day of trading. If financial assets are carried to maturity, they are recorded at acquisition cost carried forward.
The applicable fair value for all categories of financial asset is the value on the markets relevant to RATIONAL AG; any conditions imposed by banks for over-the-counter transactions are especially important here. All changes in the applicable fair value of financial assets are recorded in the current results.

Default risk and capital value of financial instruments

Because of the short maturity of these items, the book value of the cash in bank accounts, accounts receivables and other assets reported under current assets corresponds in most cases to the present value.

Derivative financial instruments

Derivative financial instruments are valued on the balance sheet date at market value, while the resulting valuation advantages or disadvantages on the balance sheet are recorded as other assets or other liabilities, and the market value changes are included in the income statement under other operating income or expenses.

Cash in bank accounts

Cash in bank accounts is valued at nominal value. Cash in foreign currency is converted at the middle exchange rate on the balance sheet date.

Deferred tax assets

Deferred tax assets are created, according to IAS 12 (revised 2004), for valuation differences between, on the one hand, the commercial and tax balance sheets for the individual companies and, on the other hand, the consolidated financial statement. Tax losses brought forward are also capitalised, in so far as they are likely to be utilised in the future, in the amount of the future deferred tax refund claim. As in the previous year, the domestic tax rate forming the basis for calculating deferred tax was approximately 37 percent in 2005. The deferred tax rates for foreign subsidiaries were between 17 percent and 42 percent.

Provisions

The valuation of provisions for pensions is based on the projected unit credit method stipulated in IAS 19 (revised 2004) for performance-oriented pension schemes.
Provisions for taxation and other provisions are created, in so far as an obligation to third parties resulting from a past event exists, if their utilisation is likely in the future and the extent of their utilisation can be reliably estimated. The valuation of the provisions is reviewed each balance sheet date.

Financial liabilities

Financial liabilities are shown at their costs of acquisition carried forward, using the effective interest method. In view of the short terms and of the fixed interest agreement for liabilities to financial institutions, there are no significant differences between the market values and the book values.
Financial liabilities are shown at their costs of acquisition carried forward, using the effective interest

method. In view of the short terms and of the fixed interest agreement for liabilities to financial institutions, there are no significant differences between the market values and the book values.

Liabilities

Liabilities from financing leasing agreements are reported on the date the agreements are concluded, at the cash value of the leasing instalments. Trade liabilities are shown at their costs of acquisition carried forward, which essentially correspond to their market values. Other liabilities are valued at the amount repayable, which is no different from the market value. Liabilities valued in foreign currency are converted at the middle exchange rate on the balance sheet date.

Realisation of income and expense

Sales are realised when the service is rendered or when the risks are transferred to the customer. Operating expenses are recorded as affecting net income when the service is utilised or on the date it is originated. Provisions for warranties are created on an individual basis or when the corresponding sales are realised. Interest income and expenses are adjusted periodically on an accrual basis. Research and development costs are allowed for as profit-reducing items immediately they are incurred. Financing costs are recorded as expenditure in the period they are incurred.

Opportunities and risks

RATIONAL has at its disposal a risk management system, implemented worldwide, which makes possible prompt recognition and analysis of opportunities and risks and provides the best possible back-up for the implementation of appropriate preventive measures. Financial risk items may ensue from market risks, in particular from interest rate risks or price and exchange rate changes. The US dollar loan shown under liabilities to financial institutions is subject to a theoretical interest rate risk for RATIONAL AG. This has been concluded with a fixed interest agreement at 3.9025 percent per annum for a term of one year, however. The group's worldwide exchange rate risks are calculated on a monthly basis with a projection for six months into the future, pooled centrally and hedged by means of derivative financial instruments where necessary. The exchange rate risks related to receivables, liabilities and future cash flows drawn up in foreign currencies. Future cash flows include planned payment flows which are to be anticipated, upon the basis of the currency-related receipts of each sales company, after costs and other expenses in the same currency have been deducted. For further information on the management of financial risks and risks of counterparty default, please consult the "Credit risks" and "Financial derivatives" Notes, as well as the risk report within the management report.

Use of estimates and assumptions

In the preparation of the consolidated financial statement, estimates and assumptions are required in principle and in particular for provisions for pensions, financing leasing and to assess the value of goodwill which may influence the amounts stated for assets, liabilities and financial obligations on the balance sheet date, as well as income and expenditure for the year under review.
In this context, the significant sources of uncertainty about valuations are those valuation factors projected into the future, such as the rate of interest used for accounting purposes, including the assumptions applied to the risk situation and the trend in interest rates and assumptions on the future trend in earnings in the underlying cash generating units. The book values for the items discussed are shown individually in the respective Notes.
The actual developments may under certain circumstances differ from the estimates and assumptions made. The principle of the "true and fair view" is allowed for unreservedly when using estimates.

Notes on the Income Statement

01 Sales

RATIONAL AG records revenue from sales of products as at that date upon which the risks and rights of disposal attaching to ownership of the goods and products sold passed to the buyer.

In the financial year 2005, RATIONAL AG achieved worldwide sales of euro 246,410 thousand (previous year: euro 221,815 thousand). Some 80 percent of this figure is attributable to sales of the RATIONAL SelfCooking Center®, RATIONAL CombiMaster® and FRIMA VarioCooking Center®. The remaining 20 percent is generated from the sales of accessories, spare parts and care products.

Sales are distributed across the regions as follows, according to the location of the customer:

Thousands of euros	**2005**	% of total	2004	% of total
Germany	40,044	16	35,602	16
Europe (excluding Germany)	137,551	56	118,200	54
Americas	30,405	12	26,366	12
Asia	28,128	12	31,822	14
Rest of the world *	10,282	4	9,825	4
Total	**246,410**	**100**	221,815	100

* Australia, New Zealand, Near/Middle East, Africa.

During the last financial year, sales in the "Germany", "Europe excluding Germany" and "Americas" regions posted double-digit growth. In spite of Germany's continuing unfavourable domestic economic situation and a high level of market penetration, sales growth in Germany amounts to 12 percent, after 11 percent the previous year. Buoyed up by the successful developments in the European subsidiaries, sales in the "Europe excluding Germany" region increased by 16 percent. With a share of 56 percent of sales, this region makes the largest contribution to the Group's sales.

The "Asia" region did not match the high levels achieved during the previous year, which was affected by a large-scale order from Kentucky Fried Chicken. In the important North American market, sales made by the US and Canadian subsidiaries increased by 29 percent in total. The weaker business with partners and OEMs means that sales growth in the "Americas" region amounts to 15 percent.

The foreign share of sales amounts to 84 percent (previous year: 84 percent), the foreign currency share to 32 percent. The fluctuations in exchange rates in the course of the year produced a negative currency effect, reflected in sales, in an amount of euro 66 thousand.

Worldwide sales of RATIONAL products are conducted by means of owned subsidiaries and by means of independent trading partners and can be broken down as follows:

Thousands of euros	**2005**	% of total	2004	% of total
Subsidiaries	175,613	71	146,557	66
Sales partners	47,181	19	50,546	23
OEM sales	23,616	10	24,712	11
Total	**246,410**	**100**	221,815	100

02 Cost of sales

Cost of sales is calculated on the basis of individual costs for materials and production, overheads for materials and production and wear and tear on fixed assets.
Although there were significant increases in prices for steel and oil once again in 2005, increased productivity in the production and supply process meant that RATIONAL AG's cost of sales rose by a disproportionately small amount in comparison to sales. The production costs included in the cost of sales amount to 19 percent (previous year: 18 percent) of total cost of sales.

03 Sales and service expenses

Sales and service expenses are made up of sales organisation costs for internal and field sales, shipping costs, as well as costs for marketing, application consultancy and after-sales service.

In addition to the expansion of sales capacities in high-potential markets, the focus in 2005 was placed above all upon increasing sales efficiency and improved penetration of markets with owned, international sales subsidiaries. In spite of the disproportionately large increase in the number of sales employees, sales and service costs have risen by a disproportionately low amount in relation to sales. The largest expense items in the field of sales and service costs are staff costs and promotional costs, in particular for appearances at trade exhibitions and marketing activities.

04 Research and development expenses

Research and development activities at RATIONAL largely consist of projects involving application research and the development of new products to secure the company's technological edge and thus its success in the future.
In relation to the previous year, research and development costs have fallen as a consequence of the elimination of the one-off costs associated with the introduction of the new SelfCooking Center® technology, but still remain significantly above the industry average.
Research and development activities are conducted at the Landsberg site of the RATIONAL AG parent company, and at the subsidiary FRIMA S.A., Wittenheim.

05 General administration expenses

General administration expenses include business administration expenses such as accounting, personnel, finance and IT, but also accounting and controlling and parts of strategic purchasing. As a consequence of the development of the essential administrative structures in the new sales companies in Austria, Poland, France and Switzerland, the administration expenses for the year under review are above those for the previous year, both in absolute terms and as a proportion of sales.

06 Other operating income

Thousands of euros	2005	2004
Exchange gains	4,249	2,720
Insurance recoveries	257	424
Income from the release of provisions	113	66
Income from value adjustments and depreciation on accounts receivable	19	395
Income from asset retirements	3	41
Rental income	2	97
Other (< euro 100 thousand in each case)	56	312
Total	**4,699**	4,055

Exchange gains from foreign currency positions were primarily generated by fluctuations in the exchange rate between the date of origin and the date of payment, as well as by the variable valuation on the balance sheet date. These were primarily of income from exchange gains realised,

the valuation of forward exchange transactions and currency options, as well as income from the valuation of foreign currency positions in US dollars, pounds sterling and Japanese yen.
The "insurance recoveries" item is made up above all of refunds in respect of credit sale insurance on goods for bad debt losses and insurance payments made in respect of goods lost or damaged in transit. The "Other" item includes a large number of income items, such as refunds in respect of travel expenses or tax refunds.

07 Other operating expenses

Thousands of euros	2005	2004
Exchange losses	3,763	3,464
Depreciation and value adjustments on accounts receivables	455	713
Donations	57	235
Other (< euro 100 thousand in each case)	172	343
Total	**4,447**	4,755

Exchange losses from foreign currency positions are primarily composed of expenses arising from exchange rate fluctuations between the date of origin and the date of payment, and from the different valuation on the balance sheet date. These were primarily exchange gains realised, expenses for the valuation of forward exchange transactions and currency options, as well as expenses for the valuation of foreign currency positions in US dollars, pounds sterling and Japanese yen.
In the previous year, the "depreciation of and value adjustments on accounts receivable" item was encumbered with a sum of approximately euro 300 thousand as a consequence of default on payment by a major customer. No major depreciation was made on individual accounts receivable for the financial year 2005. Depreciation of and value adjustments on accounts receivable are made up of a number of small individual cases and their total value is considerably lower than that for the previous year.

08 Financial results

Thousands of euros	2005	2004
Income from partnerships	108	78
Other interest and similar income	670	919
Interest and similar expenses	– 460	– 484
Total	**318**	513

The item "Income from partnerships" includes the dividend paid out to RATIONAL AG as the parent company by the non-consolidated company MEIKU Vermögensverwaltung GmbH.
In spite of the payment of a special dividend, in the amount of euro 5.00 per share (total: euro 56,850 thousand), and the associated decline in the liquidity holding, interest income for the financial year 2005 amounted to euro 670 thousand (previous year: euro 919 thousand). The interest income shown is made up of interest on fixed-term deposits, at euro 235 thousand (previous year: euro 467 thousand) and of euro 435 thousand (previous year: euro 452 thousand) for income from securities, deposits with next-day maturity, and from interest on credit balances in current accounts. The interest rates of the deposits with next-day maturity are based on EONIA (Euro Overnight Index Average), but also take account of an agreed margin for the bank.
The annual equivalent yields on the fixed-term deposits were between 2.03 and 3.00 percent per annum (previous year: 2.00 to 2.58 percent) in the last financial year. The annual equivalent yield on the bond held until it is cancelled by the issuer is 4.50 percent per annum throughout the period up to May 2005. The yield on the currency market-based funds is between 1.90 and 2.56 percent p.a. (previous year: 2.01 percent and 2.20 percent).

The main component of interest and similar expenses shown is the accumulated interest of euro 338 thousand (previous year: euro 394 thousand) shown as leasing liabilities in accordance with IAS 17 (revised 2004).
The remaining interest expenses are attributable to the parent company's US dollar loan, the Japanese subsidiary's discount bills and interest on a bridging loan and on tax arrears.

There are no effects upon revenue which fall within the "Available for Sale" class.

09 Taxes on income

The following table shows a transition from the expected to the actual reported tax expenses. Average tax rates of approximately 37 percent were used to calculate expected tax expenses in relation to earnings from ordinary activities for 2005 and 2004; the rate includes corporation tax, including the solidarity surcharge and trade income tax. The deferred tax items for the years 2005 and 2004 were all also valued in the same way, using an average tax rate of approximately 37 percent.

Thousands of euros	**2005**	2004
Expected income tax	24,557	19,753
Non tax-deductible amortisation of goodwill and released silent reserves from capital consolidation	41	94
Variations in local tax rates in the subsidiaries	58	– 27
Tax refunds from previous years	– 142	– 35
Tax expenses relating to previous year	226	100
Effects from tax rate changes on deferred tax calculation	—	61
Non tax-deductible expenses and other deductible amounts	107	62
Reported income tax	**24,847**	20,008

Deferred tax assets of euro 2,992 thousand are shown for the financial year 2005, following euro 1,761 thousand as at the balance sheet date for 2004. The deferred tax gain for 2005 is therefore euro 1,231 thousand, as against euro 372 thousand the previous year.

The tax accruals and deferrals in the financial years 2005 and 2004 are attributable to the following:

	Deferred tax assets		Effect on net income
Thousands of euros	**2005**	2004	**2005**
Elimination of intercompany profits	2,912	2,237	675
Tax losses brought forward	397	321	76
Currency conversion	– 51	– 309	258
Hedging transactions	– 278	– 455	177
Finance leasing	– 1	4	– 5
Debt consolidation	7	5	2
Provisions for pensions	67	42	25
Other	– 61	– 84	23
Total	**2,992**	1,761	**1,231**

Capitalised deferred tax refund claims of euro 2,528 thousand (previous year: euro 1,397 thousand) have a prospective term of less than a year. The reported amounts of euro 464 thousand (previous year: euro 364 thousand) are long term. The short-term deferred taxes are apportionable to RATIONAL AG and result from temporary differences between the commercial balance sheet and the tax balance sheet as well as from consolidation measures, whilst the long-term deferred taxes are mainly based on the accumulated tax losses of the subsidiaries that have been carried forward. Where tax deferrals and accruals with the same term of maturity exist within a company, a balance is shown for these items. The deferred taxes are shown under long-term assets as per IAS 1.70 (revised 2004).

10 Earnings per share

Earnings per share are calculated as stipulated by IAS 33 (Earnings per Share), by dividing group earnings by the weighted average number of shares outstanding during the financial year.

Based on an average number of shares of 11,370,000 and group earnings of euro 42,377 thousand, undiluted earnings per share for the financial year 2005 are euro 3.73, which constitutes a year-on-year rise of 25 percent over the previous year's earnings per share of euro 2.98. As a result of the Executive Board having granted stock options on 34,500 shares in 2004, the diluted average number of shares is 11,404,500 and diluted earnings per share euro 3.72, as against euro 2.97 for the previous year. The waiting period associated with the Executive Board's stock options ends with the balance sheet press conference for the financial year 2005 on March 22, 2006. According to the Executive Board resolution dated January 25, 2006, a cash settlement is paid in compensation for any option rights exercised.
The earnings per share according to IFRS/IAS shown in the financial year 2005 also correspond to DVFA earnings.

11 Dividend per share

As a result of the excellent development of the business in 2004 and because of generally very high levels of funds, a special dividend for the financial year 2004 of euro 56,850 thousand, or euro 5.00 per share, was proposed to the shareholders' meeting on May 11, 2005.
The dividend proposed to the shareholders' meeting by the Supervisory Board and the Executive Board for the financial year 2005 is euro 34,110 thousand or euro 3.00 per share. Subject to the appropriate approval from the shareholders' meeting, this would equate to 80 percent of the group profit for 2005.

EXHIBIT C

Notes on the Balance Sheet - Assets

12 Intangible assets

Thousands of euros	Industrial and similar rights	Goodwill	Total
Acquisition cost			
Balance at Jan. 1, 2005	1,900	6,048	7,948
Currency differences	—	—	—
Additions	161	—	161
Disposals	—	—	—
Transfers	—	—	—
Balance at Dec. 31, 2005	2,061	6,048	8,109
Amortisation			
Balance at Jan. 1, 2005	1,399	5,518	6,917
Currency differences	—	—	—
Additions	368	106	474
Disposals	—	—	—
Transfers	—	—	—
Balance at Dec. 31, 2005	1,767	5,624	7,391
Book values			
Balance at Dec. 31, 2005	294	424	718
Balance at Dec. 31, 2004	501	530	1,031

The depreciation shown was allocated to each functional area in the income statement according to its origin. The allocations of intangible assets and fixed assets are shown together under the "Tangible Assets" Note.

13 Tangible Assets

Thousands of euros	Land and Buildings	Technical equipment, machinery	Operating and office	Total
Acquisition cost				
Balance at Jan. 1, 2005	27,904	8,653	10,262	46,819
Currency differences	5	0	223	228
Additions	3,249	896	1,687	5,832
Disposals	– 1,818	– 6	– 812	– 2,636
Transfers	194	74	– 268	—
Balance at Dec. 31, 2005	29,534	9,617	11,092	50,243
Amortisation				
Balance at Jan. 1, 2005	10,697	2,723	6,541	19,961
Currency differences	4	0	159	163
Additions	1,058	1,313	1,496	3,867
Disposals	– 159	– 2	– 766	– 927
Transfers	193	56	– 249	—
Balance at Dec. 31, 2005	11,793	4,090	7,181	23,064
Book values				
Balance at Dec. 31, 2005	17,741	5,527	3,911	27,179
Balance at Dec. 31, 2004	17,207	5,930	3,721	26,858

The depreciation shown was allocated to each functional area in the income statement according to its origin.
Total depreciation on intangible assets and fixed assets amounts to euro 4,341 thousand, of which euro 1,643 thousand affects the net income in the manufacturing function, euro 759 thousand affects the net income in the sales and distribution and service function, euro 413 thousand affects the net income in the research and development function, and euro 1,526 thousand affects the net income in the general administration function.

14 Goodwill

Remaining book values for goodwill in an amount of euro 424 thousand are shown under the "Intangible assets" items as at the balance sheet date. Euro 2,958 thousand of the original book value originates from the acquisition of the RATIONAL subsidiary FRIMA S.A., Wittenheim in 1993. The accumulated depreciation amounts to euro 2,534 thousand. Those hidden reserves for the Lechmetall subsidiary also shown under goodwill were depreciated to their full amount during the financial year 2005.
In compliance with IFRS 3, goodwill for financial years after March 31, 2004 no longer has to be subjected to scheduled depreciation as per IAS 22. Instead, it is obligatory for the goodwill to be subjected to an impairment test in accordance with IAS 36 (revised 2004) at least once a year.

In December 2005, the goodwill of FRIMA S.A. was subjected to an "impairment test" upon the basis of the "discounted cashflow method". To this end, the legal entity "FRIMA S.A." was identified as the smallest possible "cash generating unit", the attainable sum of which will be calculated upon the basis of utility value. Estimates of future cashflow were made upon the assumption of continued use of the assets and with due consideration for the management's current financial and business plans for the next five years, upon the basis of past empirical values. Average growth in revenue of 9 percent per year is assumed for this purpose. In accordance with IAS 36, no allowance was made for any future restructuring and associated increases in earnings capacity. The discounting rate

used of 6 percent (post tax) took appropriate account of the current market assessment of the effect of interest rates and the risk forecast as they affect the assets. The capital value calculated in this way is substantially higher than the derivative goodwill for FRIMA S.A. shown in the "intangible assets" item. No reduction in value has been identified; there is not therefore any need for depreciation of goodwill.

15 Finance leasing

Tangible fixed assets also include leased property and buildings that, as finance leasing, are classified as the economic but not the legal property of the company according to IAS 17 (revised 2004).
The book values of this leased property and buildings amount to euro 11.7 million (previous year: euro 10.5 million). In financial year 2005, the accumulated depreciation on these leased assets rose by euro 0.5 million, to euro 3.4 million. The increased book values for the financial year 2005 are attributable to the finance leasing of a newly constructed shipping facility. Acquisition costs are used as a basis for reporting. The building has an expected useful lifespan of 25 years.
The corresponding liabiilities arising from the fixed assets capitalised in accordance with IAS 17 (revised 2004) are shown under the "other liabilities" item and explaned in more detail there.

16 Financial assets

As in previous years, the financial assets of euro 218 thousand shown reflect the book value of the investment in MEIKU Vermögensverwaltung GmbH, which is not included among the consolidated companies as it is only of minor importance for the RATIONAL group's net assets, financial position and results of operations.
Our French subsidiary Frima S.A.'s euro 30 thousand investment in Topinox Sarl was depreciated in previous periods.
The original acquisition costs of these investments total euro 2,725 thousand, and the accumulated partial depreciation of the lower going-concern value made necessary by the distribution of dividends amounts to euro 2,507 thousand. The current market value of the investment in MEIKU Vermögensverwaltung GmbH corresponds to the book value shown of euro 218 thousand.

17 Inventories

Thousands of euros	2005	2004
Raw materials, consumables and supplies	6,748	6,435
Work in progress	906	935
Finished goods and goods for resale	8,565	6,968
Total	**16,219**	14,338

The inventory holdings shown are valued at the cost of sales and include costs of acquisition, all of those costs directly attributable to the production process and reasonable production overheads.

The raw materials, consumables and supplies and work in progress shown are mainly inventory items of RATIONAL AG as the producing parent company, and 9 percent is accounted for by production inventories of the FRIMA S.A. subsidiary. RATIONAL AG is responsible for more than 95 percent of the low inventory holdings of work in progress. The inventory of finished products and goods has increased in comparison with the previous year. Because production is order-driven and lead times are short, however, inventories are at a very low level, which is demonstrated by the extremely limited range of stock.
The inventory holdings as at the balance sheet date of December 31, 2005 are not subject to any restrictions on disposal or mortgages.

18 Trade receivables

Thousands of euros	2005	2004
Trade receivables at nominal value	46,732	37,226
Write-downs for doubtful accounts receivable	– 643	– 532
Total	**46,089**	36,694

In view of the high level of sales, trade receivables at at the balance sheet date for 2005 are higher at the year end than at the start of the year. All receivables have a remaining term of less than one year.

As in the previous year, value adjustments (write-downs) for financial year 2005 amounted to 1.4 percent of the receivables balance. 80 percent of trade receivables were insured against risk of default through credit sale insurance; a further 3 percent are covered by "clean credits". The "Credit risks" Note contains further information.

19 Other assets

The Securities item includes receivables in an amount of euro 189 thousand (previous year: euro 159 thousand), with remaining terms of over one year. Loans of over euro 6 thousand (previous year: euro 6 thousand) are also long-term. In total, the other long-term assets amount to euro 195 thousand (previous year: euro 165 thousand).

Other short-term assets amount to euro 3,763 thousand (previous year: euro 3,757 thousand) in total.

Thousands of euros	2005	2004
Fair value of derivative financial instruments	811	1,258
Value-added tax refund claims	735	865
Corporation tax refund claims	628	307
Suppliers with debit balances	308	20
Deposits	201	186
Receivables from interest	101	179
Receivables from business tax	81	—
Receivables from input tax	56	—
Receivables from travel expense advances	34	105
Loans	6	6
Prepaid expenses	825	830
Other (< euro 50 thousand in each case)	172	166
Total	**3,958**	3,922

Prepaid expenses only includes amounts for expenses to be allocated to the following year. This item is made up of a number of smaller items. The expenses shown relate primarily to exhibitions, marketing activities and rents, as well as insurance benefits. All the items in prepaid expenses have remaining terms of less than one year.

20 Securities

The balance sheet for the previous year 2004 shows a so-called "range bond with cancellation rights" with a maturity date of May 26, 2008 and a value of euro 2,000 thousand under the Securities item. In compliance with IAS 39, this bond was valued under the "financial investment held to maturity" category.

As at balance sheet date 2005, there are no longer any holdings of securities which have to be allowed for. The issuer exercised its cancellation right prior to maturity in May 2005 and cancelled this bond. Cancellation prior to maturity meant that it was not possible for the bond to be held to maturity.

21 Cash in hand and cash in bank accounts

As a rule, the Corporate Treasury is responsible for management of the RATIONAL group's cash and cash flow equivalents worldwide, unless there are restrictions on capital movements in the individual countries in conflict with this.
At balance sheet date, there is an inventory of euro 34,763 thousand (previous year: euro 59,941 thousand):
The reduction in liquid funds is largely due to the payment of a special dividend during the year 2005, amounting to euro 5.00 per share (total: euro 56,850 thousand).
During the financial year, RATIONAL invested the major portion of its liquid funds in currency-market-based growth funds or fixed-term deposits. Where shares in growth funds were sold before the end of the financial year, the gains on those funds were realised and posted as interest income. At year end, liquid funds were primarily invested in the form of fixed-term deposits with terms not exceeding four months.
In the year under review, the yield on the currency-market-based funds was between 2.03 and 3.00 percent p.a. (previous year: 2.00 to 2.58 percent). The annual equivalent yields on the fixed-term deposits were between 1.90 and 2.56 percent p.a. (previous year: 2.01 percent and 2.20 percent). The interest rates of the deposits with next-day maturity are based on EONIA (Euro Overnight Index Average), but also take account of an agreed margin for the bank. At balance sheet date, the fixed-term deposits and deposits in euros with next-day maturity were invested in various banks. Cash held in foreign currencies is valued at the rate applicable at balance sheet date.

Thousands of euros	Currency	**2005**	2004
Fixed-term deposits with remaining terms of less than 4 months	EUR	23,000	47,000
Cash including deposits with next-day maturity	EUR	7,797	7,331
Cash including deposits with next-day maturity	USD	1,612	1,076
Cash including deposits with next-day maturity	GBP	788	2,401
Cash including deposits with next-day maturity	SEK	188	475
Cash including deposits with next-day maturity	CHF	615	452
Cash including deposits with next-day maturity	CAD	365	35
Cash including deposits with next-day maturity	PLN	104	—
Cash deposits	JPY	264	1,129
Cash deposits	CNY	6	5
Cash deposits	RUB	3	1
Cash in hand	various	21	36
Total		**34,763**	59,941

No bank balances have been pledged for loans, approved credit lines or other obligations.

Notes on the Balance Sheet – Equity and Liabilities

22 Subscribed capital

RATIONAL AG's share capital as at December 31, 2005 was unchanged at euro 11,370,000 and consisted of 11,370,000 ordinary registered shares at no-par value, issued in the name of the bearer, with a theoretical value of euro 1.

Under the terms of para. 4 sections 2 and 3 of the Articles of Association, and with the consent of the Supervisory Board, the Executive Board was authorised to raise the company's share capital in the period to January 1, 2005 by issuing new registered shares up to an amount of euro 4,215,000 (approved capital I) and euro 1,100,000 (approved capital II). The opportunity to raise the share capital was not utilised; the subscribed capital has not changed, therefore.

Conditional capital amounts to euro 200,000 and relates to option rights held by members of the Executive Board to purchase up to 200,000 shares. The conditional capital increase is dependent on the extent to which the option rights issued are utilised by their bearers. The stock option scheme is described in the "Stock option scheme" Note.

Changes in subscribed capital are included in changes in equity capital shown in the consolidated financial statement.

23 Capital reserve

The capital reserve, which mainly represents the premium from the IPO, also includes income and expense items not affecting income, totalling euro – 2,338 thousand (previous year: euro – 2,338 thousand). They result primarily from the costs of the IPO not being posted as affecting net income in previous years, but also from a loan to the US subsidiary not previously affecting net income.

The figure also includes differences from currency translation not affecting net income and amounting to euro 469 thousand (previous year: euro 428 thousand).

The Executive Board's stock option scheme is reflected in the capital reserve in an amount of euro 460 thousand (previous year: euro 220 thousand), The manner in which the option value is calculated is explained in detail in the "Stock option scheme" Note.

Changes in the capital reserve are included in changes in equity capital in the consolidated financial statement.

24 Revenue reserves

Statutory reserves accrued from previous years are shown, in compliance with section 150 of the German Stock Companies Act (Aktiengesetz).

Changes in revenue reserves are reported under changes in equity capital in the consolidated financial statement.

25 Provisions for pensions

Entitlements to the RATIONAL AG employee pension scheme exist for one former managing director and one former company secretary. The employee pension scheme is financed exclusively by pension provisions which in the financial year 2005 amounted to euro 683 thousand (previous year: euro 591 thousand). The committed payments are calculated annually, in accordance with IAS 19, using the actuarial projected unit credit method.

The 10-percent-corridor method is used to calculate pension provisions and the resulting pension costs, which means that any profits or losses over a 10 percent threshold are distributed evenly over the average remaining length of service.

The calculations were based on the following assumptions:

Rate of interest: 4.25 percent (previous year: 5.00 percent)
Pensions trend: 1.00 percent (previous year: 1.00 percent)

K. Heubeck's 1998 mortality tables were used as a biometric basis for calculations as at December 31, 2004, while the 2005 G versions were used for calculations as at December 31, 2005.

Pension provision development was as follows:

Thousands of euros	**2005**	2004
Balance at Jan. 1	591	533
Additions	92	58
Releases	—	—
Balance at Dec. 31	**683**	591

The cost of the provisions for pensions contained in the income statement for the financial year 2005 is composed of the accumulation of expected pension obligations in the amount of euro 92 thousand. Provisions for pensions totalling euro 58 thousand were accumulated during the previous year.

26 Provisions for taxes

Thousands of euros	Balance at Jan. 1, 2005	Currency differences	Use	Additions	Balance at Dec. 31, 2005
Taxes on income	9,969	18	– 9,952	6,400	6,435

All provisions for taxes shown have terms of less than one year.

27 Other provisions

Thousands of euros	Balance at Jan. 1, 2005	Currency differences	Use	Additions	Balance at Dec. 31, 2005
Personnel	5,126	103	– 5,054	5,675	5,850
Warranty	1,865	2	– 1,867	2,526	2,526
Outstanding invoices	1,393	17	– 1,415	2,046	2,041
Consulting and audit fees	1,258	1	– 1,259	1,342	1,342
Trader bonuses	1,442	108	– 1,622	2,022	1,950
Other	332	5	– 258	379	458
Total	**11,416**	**236**	**– 11,475**	**13,990**	**14,167**

The provisions shown under "Other" comprise totals of individual provisions of less than euro 50 thousand each. All items listed as other provisions have terms of less than one year.

28 Liabilities to banks

As at the year end, the parent company has a bank loan of USD 3,000 thousand, which is valued at euro 2,537 thousand as at the rate of exchange on the balance sheet date. It was concluded on the basis of a fixed-interest agreement at 3.9025 percent p.a. and for a term of one year. The exchange gain in an amount of euro 234 thousand arising from the valuation between the acquisition costs in February 2005 and the balance sheet date is included in the other operating income.

In February 2005, the aforementioned loan taken out with the Sparkasse Landsberg replaced that taken out for the same amount in USD with Dresdner Bank in 2002 and still in force as at year end 2004 (valuation for previous year: euro 2,202 thousand).

During the year under review, bridging loans amounting to a total of euro 9,388 thousand were taken out for an average term of five weeks to finance payment of a special dividend in an amount of euro 5.00 per share (total: euro 56,850 thousand). The internationality of the RATIONAL group can be exploited to obtain finance in low-interest currencies without any additional currency risk. The total interest payable for these bridging loans which affected the revenue shown in the financial results amounts to just euro 8 thousand.

All funding for the RATIONAL group is obtained by means of the Corporate Treasury, which is part of RATIONAL AG. As at balance sheet date, the parent company's unused credit lines amount to euro 39,813 thousand (previous year: euro 40,412 thousand). The credit lines have been provided by various banks until further notice or for 12 months in each instance. No securities are assigned in respect of the credit lines; instead, a negative covenant or a banks' pari passu clause is agreed upon. RATIONAL undertakes with this, in relation to provision of security for the claims, not to put the individual bank into a position any less favourable than other creditors or banks providing comparable loans.

29 Trade accounts payable

Thousands of euros	**2005**	2004
Trade accounts payable	5,361	5,844

The excellent situation in terms of liquid assets means that liabilities owed to suppliers are being setttled within the shortest term possible, taking advantage of discounts provided by suppliers.

78 percent of those trade liabilities as at balance sheet date are incurred in the production facilities of RATIONAL AG, Landsberg am Lech, and of FRIMA S.A., Wittenheim.

30 Other liabilities

Thousands of euros	**2005**	2004
Liabilities from finance leasing agreements	5,772	5,585
Value-added tax liabilities	2,187	1,323
Liabilities to business partners	2,062	2,958
Liabilities from PAYE and church taxes	1,276	1,117
Liabilities from wages, salaries and social security contributions	1,486	1,323
Fair value of derivative financial instruments	51	14
Deferred income	123	172
Other (< euro 100 thousand in each case)	72	172
Total	**13,029**	12,664

The prepaid income item includes deferred book gains from a sale & lease back transaction conducted by the French subsidiary, Frima S.A., in an amount of euro 123 thousand (previous year: euro 172 thousand). In accordance with IAS 17 (revised 2004), the book gains are released in a manner which affects net profit over the term of the respective leasing agreements.

Euro 74 thousand of these deferred book gains are long term (previous year: euro 123 thousand).

In the financial year 2005, liabilities relating to finance leasing agreements in accordance with IAS 17 (revised 2004) increased by euro 1,643 thousand as a consequence of the leasing financing of a new shipping facility. Regular repayments of finance leasing liabilities amount to euro 1,456 thousand.

The due dates of liabilities resulting from finance leasing agreements are listed in the following table:

Thousands of euros	Total **2005**	Remaining up to 1 year **2005**	Total 2004	Remaining up to 1 year 2004
Term; interest				
a) to 2007; 6.45%	1,105	820	1,875	770
b) to 2007; 4.93%	85	63	146	61
c) to 2008; Pibor 3 months +1.50%	448	155	595	147
d) to 2011; 6.65%	2,295	353	2,624	329
e) to 2011; 6.05%	301	47	345	44
f) to 2011; 3.50%	1,538	258	—	—
Total	**5,772**	**1,696**	5,585	1,351

For the finance leasing agreements under a), b), d), e) and f) in the above table, both interest and leasing rates are fixed during the entire term and are distributed evenly over the terms of the leasing agreements. There are no options to extend these terms, nor are restrictions placed upon them. It was agreed contractually that lessee loans were to be taken out in each case that would attain the fixed sale value (option to buy in RATIONAL AG's favour) of the leased objects upon the maturity of the leasing agreements. Finance leasing agreement f) is used for the finance leasing of the new shipping facility constructed in 2005.

Finance leasing agreement c) has a variable interest rate (Pibor 3 months + 1.5 percent), with the option of converting to a fixed rate of interest (OAT + 1.8 percent). At maturity, the lessor may purchase the leased object for euro 0.15. This contract is not subject to restrictions, either.

Under the terms of the finance leasing agreements, the following leasing payments will become due in subsequent periods:

Thousands of euros	**2006**	2007 – 2010	from 2011
Present values	1,906	3,329	303
Discounts	72	718	131
Leasing payments	1,978	4,047	434

With the exception of the other long-term liabilities arising from finance leasing (including deferred income), all of the other liabilities shown are of a short-term nature.

Notes on the Cash Flow Statement

31 Cash flow statement

The cash flow statement shows the changes in cash and cash flow equivalents of the RATIONAL group during the year under review. In compliance with IAS 7, the cash flow statement shows the cash flow from operating activities – representing the cash inflow from current operating business activity – separately from that from investing and financing activities. Also in compliance with IAS 7, investing and financing activities which did not result in a change in cash are not included in this cash flow statement.

Cash in bank accounts includes cash subject to restraints on disposal. The restraints on disposal relate to a sum of euro 6 thousand (previous year: euro 5 thousand). No bank balances have been pledged for loans or approved credit lines. The cash and cash flow equivalents shown include cash on hand and cash in bank accounts which have a remaining term of three months or less and are to be assigned to the "liquid assets" item on the balance sheet. Holdings of financial resources fell from euro 44,941 thousand at the start of the financial year to euro 31,763 thousand as at December 31, 2005.

Other Notes

32 Contingent liabilities

Contingent liabilities include not only possible obligations whose actual existence must first be confirmed by the occurrence of one or more uncertain future events which cannot be influenced exclusively by the company, but also existing obligations which will probably not result in an outflow of assets or whose outflow of assets cannot be reliably quantified.
In the RATIONAL group, this only applies to warranties and obligations relating to process costs, and these are covered by provisions totalling euro 2,846 thousand (previous year: euro 2,068 thousand). An overview of other provisions is shown under Note 27.

33 Employees and personnel costs

During the financial year 2005, the average number of people employed by the RATIONAL group rose by 50, to 792. The average number of people employed outside Germany increased by 43, to 271.
The largest area of growth in the number of people employed was the sales and marketing area; this reflects the continuing expansion of the international sales organisations.

Employee distribution among the various operational areas is as follows:

	2005	**% of total**	2004	% of total
Production	249	32	251	34
Marketing and Sales	279	35	243	33
Technical Customer Service	111	14	102	14
Research and Development	56	7	54	7
Administration	97	12	92	12
Average number of employees	**792**		742	
of which abroad	271	34	228	31

As at balance sheet date on December 31, 2005, the number of employees was 808, compared to 754 as at the same date in the previous year.

Personnel costs in 2005 amount to euro 53,420 thousand (previous year: euro 47,931 thousand).

Thousands of euros	**2005**	2004
Salaries and wages	45,358	40,792
Social security	8,062	7,139
Total	**53,420**	47,931

34 Derivative financial instruments

In view of its international orientation, the RATIONAL group is exposed increasingly to financial market risks. The Corporate Treasury, located in the parent company, is responsible for all security and financing activities conducted by any of the RATIONAL companies. Agreements have been concluded in writing on the activity of the Corporate Treasury. The treasury activities required are supported, managed and monitored by a professional treasury management system. It is for example possible to value the pooled foreign currency risk at any time upon the basis of a market value approach.

Derivative financial instruments are used to counter the risks identified. Derivative financial instruments are used to hedge transactions which have been entered into accounts, those which are incomplete and which are anticipated. As a rule, approximately 50 percent of the risks identified are hedged for a period of six months. Generally, therefore, the group does not enter into positions for commercial purposes nor does it enter into undertakings which include a risk which cannot be forecast as at the date upon which the transaction is concluded. Its contractual partners in derivative financial instrument transactions are always banks with good to first class credit ratings, i.e. with a Standard & Poor's A+ rating as a minimum.

Raw materials price risks

In its production processes, RATIONAL uses several thousand tonnes of high-quality stainless steel a year. The risk of price changes for stainless steel is governed both by the cost price of stainless steel itself and by the fluctuations in the price of alloys on the raw materials market which are reflected in the so-called "alloy surcharge". The proportion of nickel in stainless steel is around 8 or 9 percent, making nickel of particular interest as an alloying material.

Over recent months, the cost price of stainless steel has been under pressure. The planned expansion of production capacities in China is cited, among other factors, as the cause for this. As the cost price of stainless steel itself cannot be hedged by derivative financial instruments, RATIONAL agrees fixed prices with its suppliers for periods of twelve months.

Over the year under review, the alloy surcharge has stabilised at a high level. For RATIONAL AG, the increase in the alloy surcharge means increased cost of sales which, in view of the negligible financial effects, can be disregarded and does not therefore require hedging.

Foreign exchange risks

The RATIONAL group's foreign exchange risks are calculated on a monthly basis with a planning horizon of 6 months, pooled centrally and hedged by means of derivative financial instruments if necessary. The foreign exchange risks apply to receivables, liabilities and future cash flows in foreign currencies. The underlying volume of future cash flows in each currency is carried in the planned exchange-related moneys received by the sales companies after the deduction of costs and other expenses in the same currency. A procedure like this does not fulfil the requirements for hedge accounting as per IAS 39 (revised 2004).

RATIONAL AG uses currency options and currency futures to hedge these cash flows. The currency options concluded included both so-called plain vanilla options and zero-cost options. Purchasing a plain vanilla option entitles RATIONAL, if it pays a premium on the option when the deal is concluded at the agreed time, to trade a fixed volume in the agreed currency at a fixed exchange rate.

As a rule, the zero-cost option finances the option premium required for the purchase through the sale of another option at the same time. RATIONAL uses zero-cost options both with and without spread.

Zero-cost options with spread combine the purchase of put options with the sale of call options at different base prices. Zero-cost options without spread combine the purchase of put options with the sale of a call option where the basis price is the same for both.

Interest rate derivatives

Interest-currency swaps with terms of more than one year are used to exploit interest rate variations between different countries. This involves converting a fixed interest and redemption obligation in one currency into a fixed interest and redemption obligation in another currency. Interest and redemption payments are made from the income earned in the other currency through the subsidiary's commercial activities in the respective country. The conditions relating to swaps are designed in such a way that no premium is due on conclusion of the contract.

Valuation of derivative financial instruments

RATIONAL does not fulfil the conditions for hedge accounting under IAS 39 (revised 2004); consequently, all derivative financial instruments must be shown on the balance sheet at market value. On the day of trading, hedging transactions in the form of purchases are capitalised as assets and those which are sales are capitalised as liabilities, the assets being shown under other assets and the liabilities under other liabilities. The changes in the market value are shown as affecting net income.

The market value of currency futures is calculated using the middle spot rate applicable as at balance sheet date, taking account of the time premiums or discounts that apply for the remaining terms of the individual contracts compared to the forward exchange rate at the time each contract was concluded.

With currency options and swaps, the market value is the value that could have been achieved under current market conditions in trading between willing and independent contractual parties from the sale of the rights or obligations of a financial instrument (fair value). Any compensatory effects from underlying transactions are disregarded when determining the market value.

The following table shows the contract value and market value of the derivative financial instruments, by category, as at December 31, 2005 and 2004: The contract values do not represent the market risk; in fact, they provide information on the transactions outstanding as at the balance sheet date. In all cases, the remaining term of open hedging transactions is less than one year.

		Contract value		Positive market value (assets)		Negative market value (liabilities)	
Thousands of euros	**Currency**	**2005**	2004	**2005**	2004	**2005**	2004
Forward exchange contracts	CHF	1,705	5,114	87	201	—	—
Forward exchange contracts	SEK	2,215	—	24	—	—	—
Forward exchange contracts	JPY	2,157	—	9	—	—	—
Forward exchange contracts	USD	—	414	—	47	—	—
Currency options	GBP	14,554	7,123	69	34	51	9
Currency options	USD	1,613	2,386	4	139	—	—
Currency options	PLN	506	313	4	—	—	—
Currency options	JPY	—	4,491	—	96	—	5
Interest rate/ currency swaps	JPY	2,280	2,689	614	741	—	—
Total		**25,030**	22,530	**811**	1,258	**51**	14

35 Other financial obligations

As at December 31, 2005, in addition to provisions, liabilities and contingent liabilities, other financial liabilities amounted to euro 8,409 thousand, of which euro 3,301 thousand will become due within the next twelve months. These primarily represent future payments resulting from long-term development, rental, transport and leasing agreements.
The leasing agreements, treated in accordance with IAS 17 (revised 2004) as operative leases, apply to the long-term use of production facilities. The terms of the agreements run for up to 66 months and are subject to fixed leasing instalments evenly distributed over the terms of the agreements.

These are non-terminable agreements which contain continuation clauses applicable at the end of the agreed leasing term. Insurance against loss or destruction of the objects leased is generally covered by policies issued by the RATIONAL group. The leasing agreements contain no restrictions relating to, for example, dividends, additional debts or further leasing agreements. Future minimum lease payments for operative leases will amount to euro 2,459 thousand over the next twelve months, and euro 2,240 thousand in total for the years 2007 to 2010; no leasing payments over and above this figure are due. The leasing expenses shown in the net income for the financial year 2005 amount to euro 988 thousand.
Euro 25 thousand is payable to former employees for agreed restraints on competition.

36 Credit risks

The RATIONAL group supplies customers in approximately 120 countries. All trade receivables shown on the balance sheet at year end 2005 are due for payment within one year. Risks of default may arise from customers not fulfilling their payment obligations. Evident risks of default in the receivables inventory are allowed for by means of the establishment of provisions in a sufficient amount.
In order to counter from the outset the risk of default and therefore the credit and liquidity risks which may be associated with it for the RATIONAL group, our customers undergo a credit check and are given a decision on a limit from a company providing credit sale insurance. As an alternative to checks on creditworthiness made by the insurers, and depending upon the type and amount of the payment concerned, it is sometimes necessary to use security deposits, prepayments, or "clean credits" from banks to provide security, or to take documented payment behaviour so far into consideration in the decision-making process. Receivables to public sector customers are disregarded during the credit check.
COFACE is contracted to the whole of the RATIONAL group worldwide as insurer for credit sale insurance. RATIONAL AG generally uses Euler Hermes Kreditversicherungs-AG's so-called Hermes export credit guarantee with regard to export customers in non-OECD countries.
Under the terms of our agreements, the insurance not only covers the risk of customer insolvency but also so-called protracted default (= non-payment situation covered by insurance). In such cases, 85 to 90 percent of the claim in default is settled through the credit sale insurance.
Of the holdings of trade receivables at year end 2005, 80 percent (previous year: 77 percent) are secured through credit sale insurance. In addition, euro 2,334 thousand (previous year: euro 2,395 thousand) is secured against default on payment by confirmed, irrevocable letters of credit from banks, and there is a volume of claims totalling euro 556 thousand (previous year: euro 664 thousand) against public sector customers.
The holdings of trade receivables at year end 2005 do not include any large-scale cluster risks. We define these as unhedged claims with a nominal value of more than euro 100 thousand per individual customer. The total value of these claims is euro 1,190 thousand (previous year: euro 1,239 thousand) and is spread between seven customers.

This corresponds to a share of 2.58 percent (previous year: 3.38 percent) of the trade receivables shown by the RATIONAL group on its balance sheet. At euro 356 thousand, the customer with the largest unsecured receivables balance accounts for just 0.77 percent of the total receivables volume shown on the balance sheet.
In spite of the continuing difficult economic climate, written-off receivables for the financial year 2005 account for just 0.18 percent (previous year: 0.20 percent) of the year's turnover. This figure does not allow for compensation paid or to be expected from the credit sales insurer.

Credit risk from derivative financial instruments is primarily limited to risks relating to business relationships between RATIONAL AG and its sales subsidiaries within the RATIONAL group. The default of a contractual partner of a sales subsidiary thus has no appreciable impact on the credit risk of the RATIONAL group as a whole.

37 Segment reporting

RATIONAL AG's activities are focused on one business segment: the development, production and sale of appliances used in the thermal preparation of food in industrial kitchens. It does not currently carry any other significant independent product lines that would be reported as segments internally. For this reason, the primary and only segment reporting format is geographical.
For segment reporting purposes, RATIONAL therefore summarises its subsidiaries on the basis of their various geographical regions, in accordance with the stipulations of IAS 14.13 governing the apportionment of assets by location. We distinguish between the following five segments: a) German subsidiary, b) subsidiaries in Europe, excluding Germany, c) subsidiaries in the Americas, d) subsidiaries in Asia and e) the activities of the parent company, whereby RATIONAL AG, LechMetall and Rational Technical Services GmbH, all of whose registered offices are in Landsberg am Lech, Germany, are summarised together. Europe excluding Germany includes those subsidiaries in the UK, France, Italy, Austria, Switzerland, Poland, Spain (for sales in Portugal and Spain) and in Sweden (for sales in Scandinavia). The Americas segment includes the activities of our subsidiaries in the US and Canada. The Asia segment is represented by the subsidiary in Japan.
The parent company's activities involve the development, production and delivery of products to the subsidiaries on an inter-company basis. Moreover, the parent company supplies both partners in foreign markets that are not covered by any one subsidiary and OEM customers around the world. LechMetall Landsberg GmbH, whose registered offices are in Landsberg am Lech, Germany, is the owner of the property on which Factory I stands. RATIONAL AG is currently its only business partner and pays LechMetall ground rent for the leased land and buildings, plus an annual operating fee of 15 percent of LechMetall's authorised capital. It is included in the parent company's segment, along with Rational Technical Services GmbH, Landsberg, the new subsidiary formed in 2004, which combines all of the service and after-sales service activities.
The new subsidiary, RATIONAL Austria, formed in March 2005, whose registered offices are in Salzburg, was shown as a consolidated company for the first time in the consolidated financial statement for the 1st quarter of 2005. The subsidiaries RATIONAL Poland, whose registered offices are in Warsaw and RATIONAL France SAS, whose registered offices are in Noisiel, France, were formed in July 2005. Frima Deutschland GmbH, with registered offices in Frankfurt, was formed in April 2005 as a fully owned subsidiary of RATIONAL's subsidiary FRIMA with registered offices in Wittenheim, France. The RATIONAL International AG subsidiary was formed in August 2005, and FRIMA International AG in October 2005, both of them having their registered offices in Balgach, Switzerland. At the end of December 2005, FRIMA International AG formed another company, FRIMA France SAS, Wittenheim.
All of those new sales companies formed in 2005 are assigned to the Europe segment.

This segment division reflects the company's management structure and also represents the risk and earnings structures of our business worldwide.
For reasons of administrative simplicity, the AG makes investments for the German sales and after-sales service business included under GKT GmbH (Großküchentechnik). Support provided by the AG is included in the segment expenditure of the German subsidiary as part of the AG's cost apportionment, including depreciation, and is thus taken into account in the segment result.

Segment sales includes both sales with third parties and inter-company sales between group companies across the segments. As a matter of principle, sales and proceeds arising from internal relationships are priced at the same level as those with third parties.
Segment depreciation relates to intangible and tangible assets. No other significant non-cash expenses requiring disclosure in accordance with IAS 14.61 were incurred in either 2005 or the previous year.
Segment assets includes all assets, with the exception of liquid funds and any deferred tax assets.
The reconciliation column reflects, firstly, the effects of consolidation and, secondly, the amounts resulting from the variant definition of the contents of segment items compared to the related group items.

An additional breakdown of sales by customer location as required by IAS 14.71 can be found in Note 1 "Sales".

2005 Thousands of euros	Activities of the subsidiaries in: Germany	Europe excl. Germany	Americas	Asia	**Activities** of the parent company	**Total** for segments	**Reconcil.**	**Group**
External sales	39,727	101,490	22,105	12,292	70,796	**246,410**	—	**246,410**
vs. previous year	+ 13%	+ 24%	+ 29%	+ 1%	– 6%	+ 11%	—	+ 11%
share	16%	41%	9%	5%	29%	100%	—	100%
Intercompany sales	—	1,968	—	—	123,650	**125,618**	—	**125,618**
Segment sales	39,727	103,458	22,105	12,292	194,446	**372,028**	—	**372,028**
vs. previous year	+ 10%	+ 26%	+ 29%	+ 1%	+ 9%	+ 14%	—	+ 14%
Segment expenses	38,624	97,726	21,150	12,335	131,461	**301,296**	—	—
Segment result	1,103	5,732	955	– 43	62,985	**70,732**	– 3,826	**66,906**
vs. previous year	+ 891	+ 1,611	+ 271	– 140	+ 13,131	+ 15,764	—	+ 13,566
Segment assets	4,352	40,134	8,967	4,900	83,198	**141,551**	– 44,178	**97,373**
Segment liabilities	4,483	29,980	8,978	5,004	27,312	**75,757**	– 33,544	**42,213**
Segment investments	—	963	151	33	4,846	**5,993**	—	**5,993**
Segment depreciation and amortisation	—	629	195	96	3,421	**4,341**	—	**4,341**
Employees as at Dec. 31, 2005	52	184	53	31	488	**808**	—	**808**
vs. previous year	– 6	+ 38	+ 10	– 1	+ 13	+ 54	—	+ 54

2004 Thousands of euros	Activities of the subsidiaries in: Germany	Europe excl. Germany	Americas	Asia	**Activities** of the parent company	**Total** for segments	**Reconcil.**	**Group**
External sales	35,061	82,162	17,188	12,145	75,259	**221,815**	—	**221,815**
share	16%	37%	8%	5%	34%	100%	—	100%
Intercompany sales	955	24	—	—	102,864	**103,843**	—	**103,843**
Segment sales	36,016	82,186	17,188	12,145	178,123	**325,658**	—	**325,658**
Segment expenses	35,804	78,065	16,504	12,048	128,269	**270,470**	—	—
Segment result	212	4,121	684	97	49,854	**54,968**	– 1,628	**53,340**
Segment assets	3,265	30,110	5,562	5,229	66,246	**110,412**	36,351	**146,763**
Segment liabilities	3,526	19,570	6,102	5,773	31,830	**66,801**	– 24,115	**42,686**
Segment investments	—	1,079	108	312	4,223	**5,722**	—	**5,722**
Segment depreciation and amortisation	—	488	163	91	3,889	**4,631**	—	**4,631**
Employees as at Dec. 31, 2004	58	146	43	32	475	**754**	—	**754**

38 Legal disputes

In the course of its normal business activities, the RATIONAL group is involved in a number of small court actions and claims concerning the recovery of default receivables, assumed infringements of patents by competitors and opposition proceedings before the patent office (own patents and patents owned by third parties).

39 Supervisory Board and Executive Board

The composition of the Supervisory Board did not change during the financial year 2005. The members of the Supervisory Board are still the following:

Mr Siegfried Meister, Chairman	Chairman of the Supervisory Board
Mr Walter Kurtz, Deputy Chairman	Deputy Chairman of the Supervisory Board
Mr Roland Poczka, Board member	Member of the Supervisory Board

For the financial year 2005, the total remuneration of the Supervisory Board amounted to euro 504 thousand (previous year: euro 482 thousand), distributed as follows:

Siegfried Meister	euro 201 thousand (previous year: euro 193 thousand)
Walter Kurtz	euro 170 thousand (previous year: euro 163 thousand)
Roland Poczka	euro 133 thousand (previous year: euro 126 thousand)

As at December 31, 2005, the members of the Supervisory Board still hold a total of 8,116,309 shares in RATIONAL AG (previous year: 8,116,309), of which Mr Siegfried Meister holds 7,159,786 (previous year: 7,159,786).
Mr Siegfried Meister and Mr Walter Kurtz each also hold one percent of the authorised capital of MEIKU Vermögensverwaltung GmbH.
In addition to his membership of the Supervisory Board of RATIONAL AG, Mr Roland Poczka was also a member of the supervisory boards at Winkler und Dünnebier Aktiengesellschaft in Neuwied and, until August 30, 2005, at DTMS AG in Mainz. Furthermore Mr Poczka is advisor of the Glatz-Gruppe, Neidenfels and member of the administrative board of the RATIONAL International AG, Balgach, Switzerland.

The composition of the Executive Board did not change during the financial year 2005. The following are still members of the Executive Board:

Dr. Günter Blaschke, Dipl.-Kaufmann	Chief Executive Officer
Erich Baumgärtner, Dipl.-Betriebswirt	Chief Financial Officer
Peter Wiedemann, Dipl.-Ingenieur	Chief Technical Officer

The total remuneration of the members of the Executive Board for the performance of their tasks in the parent company and its subsidiaries amounted to euro 2,224 thousand in the financial year 2005 (previous year: euro 1,500 thousand). This sum includes a performance-related salary component of euro 1,228 thousand (previous year: euro 611 thousand).
As at December 31, 2005, the members of the Executive Board together still hold a total of 8,033 shares in RATIONAL AG (previous year: 8,033 shares) .
None of the members of the Executive Board sits on a supervisory board of a non-RATIONAL group company.

40 Associated companies and persons

During the year under review 2005, there were no significant transactions with companies or people associated with RATIONAL AG in any way whatsoever.

41 Stock option plans

On February 3, 2000, RATIONAL AG launched a stock option scheme for the company's Executive Board members. The scheme is designed to offer Board members additional incentives to secure the company's economic success in the medium and long-term and, in the interests of the share-holders, to work towards increasing the value of the company.

It was decided initially to grant beneficiaries of the scheme the option to buy a total of 200,000 registered shares in the company in up to five annual tranches, representing a theoretical share of the company's share capital of euro 200 thousand. Only the Supervisory Board is competent to conclude option agreements, and is also responsible for deciding the precise group of beneficiaries from among members of the Executive Board.

The option rights may have terms of up to five years from the dates of issue for the individual tranches. The option rights themselves may be exercised two years after issue at the earliest. The Supervisory Board can ordain that portions of the option rights may only be exercised after a longer waiting period. When individual waiting periods expire, the option rights are only exercisable within certain periods. The periods during which rights are exercisable start in each case on the 2nd and end on the 6th trading day following a regular shareholders' meeting of the company or the presen-tation of a quarterly report.

The exercise price for option rights issued before the company's shares were first listed on the Frankfurt Stock Exchange when the company was first floated in the year 2000 corresponds to the placing price per share set then. For option rights issued at a later date, the exercise price corresponds

to the average (arithmetical mean) closing price of the company's shares on the Frankfurt Stock Exchange on the last five trading days prior to the Supervisory Board's resolution to issue the par-ticular portion of option rights.

For the first tranche, which was issued as part of the initial public offering, it was decided to issue 34,500 shares, and these were issued in February 2000. The waiting period was two years for this first tranche, and they were exercisable for a period of three years. The exercise of option rights was linked to the attainment of RATIONAL share price targets, which were achieved, subsequent to the expiry of the waiting period. In 2002, it was decided by resolution of the Supervisory Board that after deduction of the fixed share issuance amount, a cash payment equivalent to 100 percent of the value of a common share of the company could be drawn on each option right. A cash settlement of euro 593 thousand was paid to the Executive Board from the first tranche of the stock option scheme in May 2002.

It was decided by resolution of the Supervisory Board on January 28, 2004 to grant the Executive Board option rights on a further 34,500 RATIONAL AG shares. The waiting period for this second tranche is two years and they are exercisable for a period of three years. The exercise of option rights was linked to the attainment by the RATIONAL share of certain performance targets, meas-ured against the SDAX index. The exercise price was set – taking account of the price of RATIONAL shares at the time the option was granted – at euro 47 per share. In the meeting of the Supervisory Board on January 25, 2006, the Supervisory Board decided by resolution to make a cash settlement in respect of the second tranche as well.

The stock options granted to the Executive Board were depreciated in a manner which affected the net income in accordance with the specifications of IFRS 2. The stock option scheme is reflected in an amount of euro 460 thousand (previous year: euro 220 thousand) in the capital reserve. The value of the option was calculated using a two-dimensional binomial model, whereby allowance was

made for the fact that it is possible for the option to be exercised only within the time window between expiry of the waiting period and the maturity date of the option and that any such exercise is subject to the condition that the performance of the SDAX must be surpassed. The following parameters were included as material valuation factors: the remaining term until maturity of three years, a risk-free rate of interest of 5.00 percent until maturity, a RATIONAL share price of euro 47.05, a forecast dividend yield of 7.30 percent, a volatility of 56.14 percent in the RATIONAL share, an SDAX Index of 2,823.24 points, a volatility of 12.00 percent in the SDAX Index and a correlation of 30.00 percent between the RATIONAL share and the SDAX Index. The value of the option calculated in this way amounts to euro 13.95 per option right.
As at balance sheet date 2005, therefore, option rights to a maximum of 131,000 ordinary registered shares in RATIONAL AG still remained in the stock option scheme.

42 Provision for pensions for the management

In 2001, RATIONAL AG implemented a contributory pension plan for the Executive Board and other members of the management, through an external, insured relief fund. In the financial year 2005, euro 272 thousand (previous year: euro 274 thousand) was contributed to the scheme.

43 Statement on the German Corporate Governance Code

The Executive Board and the Supervisory Board of RATIONAL AG have issued a statement as per Section 161 AktG detailing which recommendations of the government commission for the German Corporate Governance Code have been and will be complied with. This was based upon the German Corporate Governance Code in the version dated June 2, 2005. The statement of compliance has been made permanently available to the shareholders.

44 Subsequent events

In the supervisory board meeting on January 25, 2006, the Supervisory Board resolved to make a cash settlement in respect of the 34,500 share options granted to the Executive Board. The Executive Board therefore has the option to have the option rights paid out to it at a date which it may specify after the publication of the business figures for 2005 in the form of payment of the difference between the subscription price, set at euro 47, and that share price identified on the date upon which the option is exercised.
After the close of the financial year 2005, no events of particular significance occurred affecting the assessment of the RATIONAL AG or the RATIONAL group's net assets, financial position and results of operations.

45 Auditor

In the annual general meeting resolution dated May 10, 2005, Allrevision Dornhof Kloss und Partner GmbH, auditors, tax consultants, was appointed as auditor for the financial year 2005.

In the financial year 2005, RATIONAL AG received invoices for fees in an amount of euro 218 thousand from Allrevision Dornhof Kloss und Partner GmbH. The total is made up of euro 138 thousand for the auditing of individual and consolidated financial statements, euro 61 thousand for tax consultancy services and euro 14 thousand for certification and valuation services and euro 5 thousand for other services.

Landsberg am Lech, February 22, 2006

RATIONAL Aktiengesellschaft
The Executive Board

Notes

Multi-year overview

		2005	2004	2003	2002	2001	2000
[redacted]							
[redacted]	€ million	246.4	221.8	186.6	177.3	167.3	152.6
[redacted]	%	84	84	83	81	80	78
[redacted]	€ million	149.7	131.5	108.5	105.0	96.0	86.7
[redacted]	€ million	71.2	57.9	46.5	41.6	35.0	32.3
[redacted]	€ million	4.3	4.6	4.2	3.4	3.0	2.5
[redacted]	€ million	66.9	53.3	42.3	38.2	31.9	29.8
[redacted]	€ million	0.3	0.5	0.3	0.2	– 0.1	– 0.3
[redacted]	€ million	67.2	53.9	42.6	38.4	31.9	29.5
[redacted]	€ million	42.4	33.8	26.8	26.6	20.8	17.5
[redacted]	€	3.73	2.98	2.36	2.34	1.83	1.54
[redacted]	%	60.8	59.3	58.1	59.2	57.4	56.8
[redacted]	%	28.9	26.1	24.9	23.5	20.9	21.1
[redacted]	%	27.2	24.0	22.7	21.5	19.1	19.5
[redacted]	%	27.3	24.3	22.8	21.6	19.0	19.3
[redacted]	%	74.7	51.8	47.0	48.6	49.5	57.9
[redacted]	%	67.9	47.9	42.3	42.3	40.0	45.6
[redacted]	€ million	34.1	56.9	21.0	14.8	11.4	7.4
[redacted]	€	3.00	5.00	1.85	1.30	1.00	0.65

[redacted]

[redacted]

		2005	2004	2003	2002	2001	2000
[redacted]							
[redacted]	€ million	28.1	28.1	27.5	26.0	25.7	20.3
[redacted]	€ million	104.0	118.7	100.5	88.0	75.1	65.6
[redacted]	€ million	16.2	14.3	12.8	11.3	11.8	11.0
[redacted]	€ million	46.1	36.7	32.7	30.9	29.8	27.5
[redacted]	€ million	34.8	59.9	49.7	41.0	27.7	21.4
[redacted]	€ million	132.1	146.8	128.0	114.0	100.8	85.9
[redacted]	€ million	89.9	104.1	90.6	78.9	64.4	50.9
[redacted]	€ million	42.2	42.7	37.4	35.1	36.4	35.0
[redacted]	€ million	21.3	22.0	16.7	13.0	11.6	12.6
[redacted]	€ million	2.5	2.2	2.4	2.9	5.3	6.7
[redacted]	€ million	5.4	5.8	4.6	4.8	4.4	3.9
[redacted]	€ million	13.0	12.7	13.8	14.3	15.1	11.8
[redacted]	€ million	5.8	5.6	6.9	8.1	9.2	6.0
[redacted]	€ million	7.2	7.1	6.9	6.2	5.9	5.8
[redacted]	%	68.1	70.9	70.8	69.2	63.9	59.3
[redacted]	%	31.9	29.1	29.2	30.8	36.1	40.7
[redacted]	%	320.0	370.5	329.0	304.0	250.5	250.5
[redacted]	€ million	99.0	112.6	100.6	90.7	79.7	64.7
[redacted]	€ million	53.0	41.0	37.0	33.6	34.8	31.1
[redacted]	%	21.5	18.5	19.9	18.9	20.8	20.4
[redacted]							
[redacted]	€ million	32.8	39.2	29.8	31.9	19.7	16.0
[redacted]	€ million	– 3.7	– 4.6	– 4.9	– 3.4	– 4.1	– 3.4
[redacted]	€ million	– 42.3	– 37.3	– 5.1	– 25.2	– 8.6	5.0
[redacted]	€ million	6.0	5.7	6.0	4.3	4.3	3.8
[redacted]							
[redacted]		792	742	679	669	660	604
[redacted]	€ million	53.4	47.7	43.6	42.0	40.4	36.2
[redacted]	€ thousand	311.1	298.9	274.7	265.1	253.4	252.7

[redacted]

⇚ Multi-year overview

Responsible: RATIONAL Aktiengesellschaft
Conception and design: Werbeagentur Ursula Borsche GmbH/breygraphics

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